NEO Energy (ZNI) Limited

Report and Financial Statements

For the year ended 31 December 2022

Registered number: NI029409 (Northern Ireland)

NEO Energy (ZNI) Limited

Report and Financial Statements
For the year ended 31 December 2022

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NEO Energy (ZNI) Limited

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NEO Energy (ZNI) Limited

Strategic Report

The directors present their Strategic Report and the audited financial statements for the year ended 31 December 2022.

Principal activities

NEO Energy (ZNI) Limited ('the Company') is involved in the exploration and production of offshore oil and gas prospects in the UK Continental Shelf (UKCS). During the year, as part of the Group asset transfer exercise, the Company acquired interest in several assets from fellow group undertakings. The Company then subsequently transferred out its interest in all assets. The Company holds no fixed assets as at 31 December 2022.

The Company is a 100% subsidiary of NEO Energy Upstream UK Limited and part of NEO Energy Group Limited ("NEO" or "the Group").

Business review and Future Outlook

The Company's results for the year are shown in the Statement of Comprehensive Income on page 15. The profit after tax for the year was $132.7 million (2021: $179.8 million).

The Group has grown significantly in recent periods following several significant corporate acquisitions. As a result, the size and complexity of the Group has increased and during 2022, the Group enacted a series of inter-affiliate asset transfers to optimise the structure of the Group. These steps were aimed at ensuring NEO is structured efficiently to continue to grow and achieve its ambition of being a leading producer in the United Kingdom Continental Shelf ("UKCS") and support MER UK.

As part of the Group asset transfer exercise, the Company acquired several assets. These, along with other assets were subsequently transferred out of the Company. All transfers were made on a nil gain, nil loss basis. A summary of the transfers is detailed below:

Asset	Effective Date of Transfer In	Transferer
Elgin Franklin	1 March 2022	NEO Energy Natural Resources Limited
SEAL	1 March 2022	NEO Energy Natural Resources Limited
GAEL	1 March 2022	NEO Energy Natural Resources Limited
Shearwater	1 March 2022	NEO Energy Natural Resources Limited
Starling	1 March 2022	NEO Energy Natural Resources Limited
Fram	1 March 2022	NEO Energy Natural Resources Limited

Asset	Effective Date of Transfer Out	Transferee
Britannia	1 July 2022	NEO Energy Petroleum Limited
Causeway	1 July 2022	NEO Energy Petroleum Limited
Cormorant East	1 July 2022	NEO Energy Petroleum Limited
Courageous	1 July 2022	NEO Energy Petroleum Limited
Elgin Franklin	1 July 2022	NEO Energy Petroleum Limited
SEAL	1 July 2022	NEO Energy Petroleum Limited
GAEL	1 July 2022	NEO Energy Petroleum Limited
Kerloch	1 July 2022	NEO Energy Petroleum Limited
Leverett and Greenwell	1 July 2022	NEO Energy Petroleum Limited
Ruuval	1 July 2022	NEO Energy Petroleum Limited
Shearwater	1 July 2022	NEO Energy Petroleum Limited
Starling	1 July 2022	NEO Energy Petroleum Limited
Fram	1 July 2022	NEO Energy Petroleum Limited
Skerryvore	1 July 2022	NEO Energy Petroleum Limited

The cash balance at the end of 2022 was \$0.5 million (2021: \$10.0 million). Net assets at the end of 2022 were \$225.5 million (2021: \$185.5 million).

Dividends of \$100.0 million were paid and approved during the year (2021: nil).

On 8 June 2022, the Company's issued share capital was reduced by cancelling and extinguishing capital to the extent of £0.0007199 on each issued ordinary share of £0.00072 each, reducing the nominal value of each issued ordinary share to £0.0000001 each, and the Company's share premium account was reduced to nil.

The Company is no longer actively pursuing any exploration or extraction activities following the transfer of its producing assets.

Key performance indicators

The NEO Group manages its operations centrally. For this reason, the Company's directors believe that further key performance indicators for the Company, other than the profit/(loss) for the financial year as detailed in the business review section above, are not necessary or appropriate for an understanding of the development, performance or position of the business. The key performance indicators of the group are discussed in the Group's financial statements and do not form part of this report.

Decision making and stakeholder engagement

The Company's success depends on the ability to engage effectively with stakeholders. The Company's directors consider, both individually and collectively, that they have acted in good faith, taking actions to promote the success of the Company for the benefit of its members as a whole, having regard to matters set out in section 172(1) (a) to (f) of the Companies Act in the decisions taken during the financial year ending 31 December 2022.

The strategic priorities and business portfolio are managed and reviewed at the Group level by the Group Board ("the Board") along with the Executive Leadership Team (ELT). This collaborative approach by the Board, together with the Board's approval of the Group's strategy, helps it to promote the long-term success of the Group. Ultimately Board decisions are taken in the best interest of the long-term financial success of the Group and its shareholders, employees, the environment, suppliers and customers. The processes are consistent with those of the Group and further details are included in the Group's financial statements.

Principal risks and uncertainties

The Principal risks are those which are of greatest importance to NEO. Consequently principal risks are sponsored by members of the ELT and regularly reviewed with the Board. Principal Risks are categorised as either:

- Operational – arising from or impacting the day-to-day operations
- Strategic – impacting the strategic objectives of the Group
- External – arising from the external environment e.g. legislation.

Operational Risks

<u>Health, safety and the environment (HSE)</u>
Risk: The nature of the Group's operations is inherently complex, with HSE risks and hazards covering many areas including asset integrity, process safety and well control incidents impacting on people and the environment.

Mitigation: The Group's most significant exposure is its operated assets. At these assets, NEO has in place a Safety Case and HSE management plan to ensure that all operations are conducted to high industry standards and procedures. The Group also seek to ensure that all contractors have the appropriate systems and procedures in place to ensure safe operations.

All events are robustly reported, recorded and investigated to identify root causes and identify and implement effective corrective and preventative measures. Stop the work authority is reinforced continually on our assets, so that staff and contractors know that they are empowered and expected to stop the work should they believe there is a potential health, safety or environmental risk associated with any activity they are involved in. The Board regularly monitors a range of safety performance metrics including Total recordable incident frequency ("TRIF") rate which was a KPI during the year.

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To mitigate risks associated with hydrocarbon releases and pollution, Oil Pollution Emergency Plans are approved for all operations and relevant training and exercising plans are implemented. Any incident that occurs during operations is fully investigated by the Group to ensure that any remedial actions that are identified are fully acted upon and implemented. The Group is also a member of The Offshore Pollution Liability Association Limited ("OPOL").

The Group also has in place comprehensive insurance policies to cover any damage or losses which may occur during operations and to cover the costs of any major environmental issue, subject to deductibles and limits. At NEO's non-operated assets NEO actively monitors performance of the operator to ensure high HSE standards and acts if those standards are not met.

Production and reserves

Risk: The level, quality and production volumes from the Group's oil and gas reserves could vary from the 2P reserves quantities reported if assumptions on which the reserves estimates have been based prove incorrect.

Mitigation: In order to mitigate the inherent geological risks facing the Group it employs qualified and experienced experts in the geoscience fields. It applies the latest technologies to interpret data and works with skilled contractors with extensive experience in working in the areas it is operating in. Whilst this risk can never be fully mitigated, the Group focuses on mature hydrocarbon bearing provinces and exploring prospects with proven productive analogues in regions with established infrastructure. Once discovered, the Group's estimated recoverable reserves are verified by independent qualified engineering firms.

Organisation design and capability

Risk: The organisation is not equipped with the correct people, systems or processes to deliver successfully.

Mitigation: To attract and retain key talent NEO has a competitive reward package supported by talent development, performance management programmes and a safe and attractive working environment.

The NEO Management System ("NMS") has been designed to enable critical activities to be identified and managed so that risks to the health and safety of employees and to the environment are reduced to a level deemed to be as low as reasonably practicable ("ALARP"). This helps ensure that we have the correct systems and processes in place to support the talent within the organisation to deliver success.

Strategic Risks

Project execution and delivery

Risk: NEO Energy's success is partially dependent on its ability to successfully develop new projects, on time and on budget.

Mitigation: There are dedicated experienced project management teams and effective project management systems governing project execution. Governance structure ensures oversight of project delivery allowing timely corrective intervention if required. Project managers are in place to manage partner relationships and to gain alignment on the selection and prioritisation of projects.

Financial Risks

Liquidity and funding

Risk: Cost overruns, production underperformance or reduced access to debt funding sources leave NEO unable to fund its commitments.

Mitigation: NEO actively monitors its liquidity position and the Company's strategic plan, and investment decisions are evaluated under a range of operational and economic scenarios to ensure the business can fund all its commitments. NEO has a strong cash position, a supportive shareholder and a good reputation with its banking provider, supporting continued access to capital should it be required. Management oversight of asset performance, robust internal control processes and maintaining liquidity headroom to cope with downside scenarios, reduce likelihood and impact of cost overruns and production shortfalls.

External Risks

Commodity price, inflation, interest rate and currency risk

Risk: The Group is exposed to fluctuations in oil and gas prices, inflation, interest rates and currency movements affecting its near-term cash flows from production, the long-term return from investments and also the level of borrowing available under the Reserve Based Lending facility.

Mitigation: The Group makes long term investment decisions with a great degree of uncertainty over the price it will achieve for the sale of its oil or gas. Investment decisions are only undertaken following a rigorous review of project economics. These reviews will consider a range of commodity price scenarios.

The Group manages the risk of cost escalation via active monitoring of market conditions and early engagement with partners and supply chain to identify future contracting requirements and ensure that cost is minimised as best possible. The Group also seeks to build lasting contractual relationships with supply chain partners to ensure efficient contracting strategies and optimised value.
The Group has a hedging programme to mitigate its exposure to fluctuations in oil and gas prices, interest rates and foreign exchange rates, in accordance with a Board-approved Hedging Policy and also to adhere to minimum hedging levels required by Reserve Based Lending facility. Hedges to mitigate exposure to fluctuations in oil and gas prices will typically cover a proportion of anticipated production over periods of up to three years, with declining percentages of cover for each successive future period. NEO also selectively hedges currency, interest rate and carbon price exposure where appropriate. NEO actively engages with the supply chain to understand potential constraints and pricing such that its investment decisions reflect prevailing market conditions.

Cyber security

Risk: The threat of cyber security attacks is continuing to increase across all industries. Cyber security intrusions have the potential to compromise internal networks and systems, potentially leading to interruptions in the Group's activities, financial loss, loss of confidential data and reputational damage.

Mitigations: The Group has established procedures in place to address cyber security risk and has disaster recovery solutions as mitigations to any potential attack.

The Group's networks are designed and monitored to detect and prevent external cyber-attacks. Third party cyber security specialists are used to carry out testing of business critical systems and all staff and contractors are required to undertake cyber security training.

Climate Change

Climate-related risks and associated mitigation, strategies and actions are assessed at Board and Executive Leadership team levels. A Board sub-committee for Environmental, Social and Governance ("ESG") has been established to support the board on ESG related matters.

Risk: The impacts of climate change and associated legislative changes may give rise to a number of risks that will affect the oil and gas industry, in particular:

- increased costs to meet regulatory requirements and internal commitments to reducing carbon intensity
- the regulator stops approving new developments
- reduction in funding due to pressure on investors and banks to meet their own climate commitments
- extreme weather events may become more frequent impacting operational capability, disrupting supply chain and reducing accessibility for maintenance and crew transfer
- longer term reduction in demand for oil and gas

Mitigation:

- NEO has mapped a decarbonisation route to achieve the regulator's targets and NEO's Low Carbon Transition Plan in reducing carbon intensity. Carbon pricing is input into corporate modelling to quantify and more clearly understand the impact to the business. This is also discussed in the annual Task Force on

Climate-related Financial Disclosures ("TCFD") through qualitative analysis for the climate-related risk scenarios identified by the International Energy Agency. This is internally monitored by the ELT on a regular basis.

- NEO has an ESG Strategy and Low Carbon Transition Plan that are aligned with investor expectations. Additionally, NEO has made good progress with lenders to identify and map ESG KPIs for the company to ensure ongoing support from investors.
- NEO is continuing to demonstrate its commitment to being a responsible operator, and decarbonization through the Group's ESG Strategy and Low Carbon Transition Plan.
- NEO have adverse weather, contingency and response plans. Weather changes are not likely to happen immediately, as such, there is time to plan and prepare for further mitigations. Physical risk is also discussed under the different International Energy Agency's climate-related risk scenarios in the TCFD.
- NEO stress tests the portfolio under a range of commodity price forecasts including low price scenarios where demand is significantly reduced.

NEO is aligned with industry bodies to support the UKCS move towards Net Zero greenhouse gas emissions and has developed a Low Carbon Transition Plan which includes two key ambitions; firstly, reduce the carbon intensity per barrel of oil equivalent produced by the portfolio by 50% by 2030, based on Scope 1 & 2 emissions using the Equity Share approach, and secondly to be Net Zero by 2050. NEO mapped a pathway to delivering the 2030 target, which is supported by Emission Reduction Action Plans and is continuing to develop an understanding of the route to net zero by 2050. The emission reduction plans include efficiency optimisation, power generation upgrades, reduction in flaring and venting, AI and investing in technology and systems, such as full or partial electrification. NEO collaborate with partners and industry associations to explore available carbon abatement opportunities.

Regulatory and fiscal change

Risk: Changes in the regulatory or fiscal environment could impact the Group's ability to deliver its strategy.

Mitigations: The newly introduced Energy Profits Levy ("EPL"), announced in the Autumn Statement, is factored into investment decisions and financial planning. NEO will continue to engage with HM Treasury ("HMT") and industry bodies on short term impacts of EPL and the longer term tax regime.

NEO Energy participates in industry associations and bodies, such as Offshore Energies UK ("OEUK"), UK Oil Industry Taxation Committee ("UKOITC") and Association of British Independent Oil Exploration Companies ("BRINDEX"), who engage with the government on behalf of the industry. The Group also participates in fiscal change consultations. NEO also actively monitors political and fiscal risks.

People

NEO's people continue to be key to the Group's success and to embody what NEO stands for in terms of ensuring safety, first and foremost, as well as setting the highest standards of business and ethical conduct and delivering the business strategy.

NEO's core values are underpinned by teamwork, respect and courage which are the basis for creating a positive impact for our people and communities. The Group is committed to playing a role in society: employing and investing in people and driving economic growth for the UK. 2022 has seen the establishment of NEO's Charity Committee, actively supporting local causes and sponsoring the higher education of young people from diverse backgrounds. The Group's policy commits to ensuring no modern slavery or human trafficking in any part of our business, including our supply chain, and the company's percentage of women employed in the workplace, and in leadership, is above the industry average of 18%, with no equal pay or gender pay gap issues.

Environmental, Social and Governance

Environment

The Group monitors and reports emissions to track our impact on the environment. To minimize our impacts on the climate, NEO have committed to reduce greenhouse gas emission intensity per barrel of equivalent (kg CO_2/boe) produced by NEO's portfolio by 50% by 2030 and to be net zero by 2050, which is set out in the Low Carbon Transition Plan and aligns with the goals set out by the North Sea Transition Deal (NSTD) and Maximising Economic Recovery (MER).

NEO Energy (ZNI) Limited

The emissions associated with NEO's operations occur throughout the value chain. Emissions sources include the direct operations of our own assets and our partner-operated assets (scope 1), indirect emissions from the energy used to power our operations (scope 2) and emissions throughout our value chain (scope 3). In 2022, the Group completed steps towards mapping out a 5-year emission reduction plan, incorporating increasing climate literacy and developing a sustainable culture. This is preparing the Group for future reporting regulations such as the Sector Neutral Framework (through the Transition Plan Workforce) whilst ensuring tangible deliverables against the NSTD and towards net zero.

As part of its ESG strategy, the Group recognises the importance of partnerships and collaboration with stakeholders including employees, regulators, partners, industry bodies and societies, to achieve goals. This is especially important for achieving NEO's Low Carbon Transition Plan of carbon intensity reduction for scope 1 emissions by 50% by 2030, which can only be reached through collaboration on alternative power solutions, technology development and full or partial electrification.

Social

Living free from discrimination is a human right and eliminating all forms of discrimination should be a key priority for all individuals, companies, and governments. For companies, this means providing equal opportunities for all everyone with regards to access to jobs, career development, remuneration and benefits. We refrain from all forms of discrimination in all our operations. The Group believe that everyone should have the same opportunities, regardless of their age, gender, ethnicity, or religion. NEO is fully committed to its workforce and embraces a positive, inclusive culture, investing in our staff to reach their full potential.

As the UK's 5th largest oil and gas producer, the Group has an impact on the local communities it operates in by creating employment opportunities, by investing in its assets which in turn positively impacts the supply chain and creates further job opportunities, through taxes and also through corporate social responsibility activities. NEO also supports local charities across the UK and sponsors higher education programmes, providing people with opportunities to achieve their full potential.

Governance

The Board, with their diverse skills, industry experience and knowledge, is accountable for the strategic direction and long term success of the Company, and for ensuring long term value to the shareholders.

The Board delegates a number of its responsibilities to its committees, as detailed in the Directors' Report with the Chair of each committee formally reporting on proceedings.

Risk management

The Company's risk is managed collectively with the rest of the NEO group through the Group's risk management process. NEO is committed to controlling risk and optimising opportunities by using a robust risk management framework and system of internal control. The risk management framework is an integrated part of the Group's strategic and operational management and is based on the ISO 31000 standard and is designed to:

- support NEO's vision and values, regulatory requirements, corporate commitments, safe and compliant operation of assets and protect NEO's industry reputation.
- ensure uniform, efficient and suitable processes to identify, manage and report significant risks and opportunities that may affect the Group's objectives; and
- allow informed decision making, prioritisation of control activities and resources to deal effectively with any risks or opportunities.

The Board of Directors is ultimately responsible for risk management within NEO with day-to-day management of risk delegated to the CEO. NEO manages risk within the risk appetite levels set by the Board. Risk appetite determines the nature and level of risk that the Group is willing to take in pursuit of its strategic objectives.

NEO Energy (ZNI) Limited

Approved and signed on behalf of the Board.

DocuSigned by:
Robert Gair
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Robert Gair
Director
30 August 2023

NEO Energy (ZNI) Limited

Directors' Report

The directors present their report and audited financial statements for the year ended 31 December 2022.

Directors

Directors who served during the year and up to the date of signing the financial statements were as follows:

Martin Rowe	
Paul Harris	
Robert Adams	(Resigned: 20 January 2023)
Russell Alton	(Resigned: 20 January 2023)
Andrew McIntosh	
Robert Gair	(Appointed: 20 January 2023)

None of the directors had any interest in the share capital of the Company during the year.

The directors benefit from qualifying third party indemnity provisions in place during the year and at the date of this report.

Profit and Dividends

The Company's profit for the year was $132.7 million (2021: $179.8 million). Dividends of $100.0 million were paid and approved during the year (2021: nil).

Company funding and going concern

The financial statements have been prepared on the going concern basis. Further information relating to the going concern assumption is provided in note 2, including the basis of the Directors' assessment of the Company's ability to continue as a going concern.

Financial risk management

The Company's operations expose it to financial risks, including foreign exchange rates and interest rates. The Company has a risk management strategy in place which includes regular monitoring of financial risk exposure and undertaking hedging activities when appropriate (see Strategic Report).

Statement of corporate governance arrangements

During 2022 the Group met the threshold for the requirement to publish a statement of corporate governance arrangements pursuant to the Companies (Miscellaneous Reporting) Regulations 2018. The Group has made the decision to adopt the Wates Corporate Governance Principles for Large Companies (published by the Financial Reporting Council in December 2018) (the "**Wates Principles**"), which will apply to our reporting going forward. For detailed disclosure on how the Wates Principles were applied during 2022, see the NEO Energy Group Limited consolidated statutory accounts which can be obtained from Companies House.

Approved and signed on behalf of the Board

DocuSigned by:
Robert Gair
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Robert Gair
Director

30 August 2023

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Report and Financial Statements and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors' confirmations

The directors consider that the Report and Financial Statements and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy.

In the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Independent auditors' report to the members of NEO Energy (ZNI) Limited

Report on the audit of the financial statements

Opinion

In our opinion, NEO Energy (ZNI) Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Report and Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 December 2022; the Income Statement, the Statement of Comprehensive Income and the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Petroleum Act 1998, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006 and UK tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to to the posting of inappropriate journal entries to increase revenue or profitability and potential management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Enquiries of management around known or suspected instances of non-compliance with laws and regulations,claims and litigation, and instances of fraud;
- Understanding management's controls designed to prevent and detect irregularities;
- Review of board minutes;
- Challenging management on assumptions and judgements made in their significant accounting estimates;
- Identifying and testing journal entries with specific focus on entries containing unusual account combinations in response to the risk of management override of controls;
- Enquiries made of the tax team in relation to any actual or potential disagreements with the tax authorities.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Bruce Collins (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Aberdeen
30 August 2023

NEO Energy (ZNI) Limited

Notes to the financial statements for the year ended 31 December 2022

Income Statement
Year ended 31 December 2022

	Note	2022 $'000	2021 Restated* $'000
Revenue		**351,440**	53,242
Other operating income		**7,822**	6,368
Total revenue	6	**359,262**	59,610
Cost of goods sold		**(131,908)**	(46,579)
Administrative expenses		**(28)**	(47)
Operating profit	7	**227,326**	12,984
Finance income	9	**-**	275
Finance costs	10	**(11,098)**	(5,561)
Profit before taxation		**216,228**	7,698
Tax	11	**(83,554)**	172,057
Profit after taxation for the financial year		**132,674**	179,755

* The comparative 2021 results have been restated to present the majority of expenses as Operating costs, with an analysis by nature contained within Note 7.

All results presented in the income statement are derived from discontinued operations. See note 5 for more details.

Statement of Comprehensive Income
Year ended 31 December 2022

	Note	2022 $'000	2021 $'000
Profit after taxation for the financial year		**132,674**	179,755
Items that may be classified to income statement:			
Foreign currency translation differences		**-**	(355)
Fair value movement on cash flow hedges		**12,175**	(12,175)
Tax on cash flow hedges		**(4,870)**	4,870
Total other comprehensive expense for the financial year, net of tax		**7,305**	(7,660)
Total comprehensive income for the year		**139,979**	172,095
Attributable to:			
Owners of the parent		**139,979**	172,095

All results presented in the income statement are derived from discontinued operations. See note 5 for more details.

The notes on pages 18 to 35 form an integral part of these financial statements.

Statement of Financial Position
As at 31 December 2022

	Note	**2022**	2021
		$'000	$'000
Non-current assets			
Deferred tax assets	11	**4,479**	188,477
Intangible assets	13	**-**	9,051
Property, plant and equipment	14	**-**	18,971
		4,479	216,499
Current assets			
Inventories		**-**	1,330
Trade and other receivables	15	**409,978**	15,282
Cash and cash equivalents		**528**	9,988
		410,506	26,600
Total assets		**414,985**	243,099
Current liabilities			
Derivative financial liabilities due to group undertakings	16	**-**	(8,612)
Trade and other payables	17	**(118,716)**	(7,780)
Provisions	18	**-**	(1,728)
Net current assets		**291,790**	8,480
Total assets less current liabilities		**296,269**	224,979
Non-current liabilities			
Provisions	18	**-**	(39,463)
Loans and borrowings	19	**(70,802)**	-
Total liabilities		**(189,518)**	(57,583)
Net assets		**225,467**	185,516
Equity			
Called up share capital	20	**5**	37,385
Share premium		**-**	289,935
Cash flow hedge reserve		**-**	(7,305)
Currency translation reserve		**235**	235
Retained earnings / (accumulated losses)		**225,227**	(134,734)
Total equity		**225,467**	185,516

These financial statements were approved and authorised for issue by the Board on 30 August 2023 and are signed on its behalf by:

DocuSigned by:
Robert Gair
2E841F9CC89D490

Robert Gair
Director

The notes on pages 18 to 35 form an integral part of these financial statements.

Registered no. NI029409 (Northern Ireland)

NEO Energy (ZNI) Limited

Notes to the financial statements for the year ended 31 December 2022

Statement of Changes in Equity
Year ended 31 December 2022

	Cash flow hedge reserve $'000	Share capital $'000	Share premium $'000	Currency translation reserve $'000	(Accumulated losses) / retained earnings $'000	Total equity $'000
Balance at 1 January 2021	**-**	**37,385**	**289,935**	**590**	**(314,489)**	**13,421**
Profit and total comprehensive (expense) /income for the financial year	(7,305)	-	-	(355)	179,755	172,095
Balance at 31 December 2021	**(7,305)**	**37,385**	**289,935**	**235**	**(134,734)**	**185,516**
Profit for the financial year	-	-	-	-	132,674	132,674
Other comprehensive income	7,305	-	-	-	-	7,305
Capital reduction	-	(37,380)	(289,935)	-	327,315	-
Dividends paid	-	-	-	-	(100,028)	(100,028)
Total comprehensive (expense) / income for the financial year	7,305	(37,380)	(289,935)	-	359,961	39,951
Balance at 31 December 2022	**-**	**5**	**-**	**235**	**225,227**	**225,467**

1 General information

NEO Energy (ZNI) Limited is a private company, limited by shares, and incorporated and domiciled in the United Kingdom under the Companies Act 2006, and is registered in England.

The nature of the Company's operations and its principal activities are the exploration and production of offshore oil and gas prospects in the UK Continental Shelf (UKCS), as set out in the Strategic Report.

The financial statements are presented in United States Dollars ($), which is the functional currency of the Company. The financial statements for the year ended 31 December 2022 were authorised for issue in accordance with a resolution of the Board dated 30 August 2023.

All values are rounded to the nearest thousand ($'000) except when otherwise indicated.

2 Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101) and under the historical cost convention, as modified by derivative financial assets and financial liabilities measured at fair value through profit or loss, and in accordance with the Companies Act 2006. The financial statements are presented in accordance with the IFRS adapted format.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

Note 21 gives details of the Company's ultimate parent undertaking and from where the consolidated financial statements of the Group prepared in accordance with UK-adopted International Accounting Standards may be obtained.

The Company has taken advantage of the following disclosure exemptions under FRS 101:
– IFRS 7, 'Financial Instruments: Disclosures;
– Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
  (i) Paragraph 79(a)(iv) of IAS 1 'Presentation of financial statements'; (reconciliation of the number of shares outstanding at the beginning and at the end of the period;
  (ii) Paragraph 79(a)(i) of IAS 1 'Presentation of financial statements'; (the number of shares authorised);
– The following paragraphs of IAS 1, 'Presentation of financial statements':
  (i) 10(d) (statement of cash flows);
  (ii) Paragraph 16 (statement of compliance with all IFRS);
    a. 38B-D (additional comparative information);
    b. 111 (cash flow statement information); and
    c. 134-136 (capital management disclosures)
– IAS 7, 'Statement of cash flows'
– Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation)
– The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more wholly owned members of a Group.
– 101p8(i) & Paragraphs 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).

Going concern

The Company is part of the NEO Energy Group Limited (the "Group") and has net current assets of $291.8 million as at 31 December 2022 (2021: $8.5 million) which includes amounts due from NEO Energy Group subsidiaries of $291.1 million (2021: $0.6 million due to Group subsidiaries). As such it is reliant on continued financial support from the Group. The Directors have received a letter of support confirming that the Group will provide or procure sufficient funds as necessary to allow the Company to continue its operations for at least 12 months after these financial statements are signed.

In preparation of the financial statements, the Directors have made an assessment of the Company and the Group to continue as a going concern. The Company and the Group closely monitors and manages its liquidity risk by producing cash forecasts to ensure that it has sufficient funds to meet forecast cash requirements. Sensitivities are run for different scenarios including, but not limited to, changes in commodity prices and production rates.

The Company's and Group's going concern assessment covered the period to December 2024. The assessment included severe but plausible downside commodity price scenarios including a scenario in which there was a sudden decrease to an oil price of $50/bbl and a gas price of 60p per therm, followed by a staged recovery to the prevailing forward curve. Other scenarios assessed included a significant operational event resulting in a three-month loss of production entitlement in respect of a material asset and a 10% increase in the Company and Group's operating costs.

The Directors have no reason to believe that material uncertainty exists that may cast doubt about the Company's ability to continue as a going concern or its ability to continue with the current and planned banking arrangements.

On the basis of the above analysis, the Directors consider it appropriate to adopt the going concern basis of accounting in preparing the Report and the Financial statements.

3 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all of the years presented, unless otherwise stated.

New and amended standards and interpretations

During the year, the group adopted the following new and amended IFRSs for the first time for their annual reporting period commencing 1 January 2022:

- Reference to the Conceptual Framework – Amendments to IFRS 3

In May 2022, the IASB issued Amendments to IFRS 3 Business Combinations – Reference to Conceptual Framework. The amendments add an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date. At the same time, the amendments add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

- Property, Plant and Equipment: Proceeds before intended use – Amendments to IAS 16

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment (PP&E), any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

- Annual Improvements to IFRS Standards 2018-2021

IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter

The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported in the parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The adoption of these standards does not have a material impact on the Company in the current or future reporting periods.

Prior year restatements

The prior year comparatives included within the Income Statement have been restated. The restatement includes the reclassification of Foreign Exchange gains of $0.3 million to Finance Income, the removal of the Gross profit sub-total and renaming cost of sales to cost of goods sold. The restatements did not result in any change to Profit for the year; net increase in cash and cash equivalents or the net balance sheet.

Investments in Joint Operations, Joint Ventures and Associates

The Company is engaged in oil and gas exploration and development through unincorporated joint operations where the parties have rights to the underlying assets and obligations for the liabilities relating to the joint arrangement. In relation to its interests in joint operations, the Company recognises its share of the assets, liabilities and expenses of these joint operations incurred jointly with the other partners, along with the Company's income from the sale of its share of the output and any liabilities and expenses that the Company has incurred in relation to the joint operation.

In addition, where the Company acts as Operator to the joint operation, the gross receivables and liabilities (including amounts due to or from non-operating partners) of the joint venture are included in the Statement of Financial Position.

Business combinations and goodwill

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its fair value at acquisition.

Identifiable assets and liabilities acquired and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity, on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. Acquired rights to petroleum reserves and resources that can be reliably measured are recognised separately in the assessment of fair values on acquisition. Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, amount of any non-controlling interest in the acquired entity and acquisition date fair value of any previous equity interest in the acquired entity, over the fair value of the net identifiable assets and liabilities acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets and liabilities of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments is measured at fair value, with changes in fair value recognised either in the statement of profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IFRS 9, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured, and subsequent settlement is accounted for within equity.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

Negative goodwill

Negative goodwill is amortised on a unit of production basis, based on the life of field expectations of the assets to which it relates. The life of the fields are reviewed regularly, and any change in the underlying assumptions would result in an adjustment to the rate of amortisation.

Revenue recognition

Revenue represents the sales value of the Company's oil liftings and gas deliveries in the period. Oil and gas revenue is recognised when title has passed to the buyer.

Revenue from contracts with customers is recognised when control of the goods or services is transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled to in exchange for those goods or services. The Company has concluded that it is the principal in its revenue arrangements because it typically controls the goods or services before transferring them to the customer.

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for oil and gas products in the normal course of business, net of discounts, customs duties and sales taxes. Typically, payment for the sale of the oil and gas is received by the end of the month following the month in which the sale is recognised. Effective from 1 January 2021, the Group adopted hedge accounting under IFRS 9; therefore, the effects of realised oil and gas hedging are recognised as part of the revenue during the period.

Lifting or offtake arrangements for oil and gas produced by certain of the Company's joint operations are such that each participant may not receive and sell its precise share of the overall production in each year. The resulting imbalance between cumulative entitlement and cumulative liftings is 'underlift' or 'overlift'. Underlift and overlift are valued at net realisable value and included within current assets and current liabilities respectively. Movements during an accounting year are recognised within movement in petroleum inventory in the income statement.

In the opinion of the Directors, the operations of the Company comprise one single class of business, being oil and gas exploration and production. The Company operates in one geographic area, the United Kingdom Continental Shelf. The financial information presented reflects all the activities of this single business.

Operating costs

Operating costs include DD&A, royalties, transportation tariffs and field operating costs. These are recognised as incurred.

Goodwill and intangible assets impairment

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation but are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount might not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, goodwill is tested for impairment at the level that management monitor the goodwill. See note 13 for further details on the impairment testing of goodwill and intangible assets.

Taxation

The tax expense/credit represents the sum of the current and deferred tax.

Current tax, including UK corporation tax, supplementary charge and the Energy Profits Levy is provided at amounts expected to be paid (or recovered) using the tax rates and laws enacted or substantially enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses, to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and assessed to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currency

The Company's functional and presentational currency is United States Dollars.

At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the income statement for the period.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and bank overdrafts.

Inventory

Inventory consists of production material inventory and capital spares and are stated at the lower of cost and net realisable value.

Exploration and evaluation (E&E) expenditure

The Company adopts the successful efforts method of accounting for exploration and evaluation costs which are included within Property, Plant & Equipment.

Pre-licence costs are expensed in the period in which they are incurred. Expenditure directly associated with exploration, evaluation or appraisal activities is initially capitalised. Such costs include the costs of acquiring an interest, appraisal well drilling costs, payments to contractors and an appropriate share of directly attributable overheads incurred during the evaluation phase. For such appraisal activity, which may require drilling of further wells, costs continue to be carried as an asset whilst related hydrocarbons are considered capable of commercial development. Such costs are subject to technical, commercial and management review to confirm the continued intent to develop, or otherwise extract value. When this is no longer the case, the costs are written off as exploration and evaluation expenses in the income statement. When exploration licences are relinquished without further development, the carrying costs are written off through the income statement.

E&E assets are assessed for any impairment which includes the consideration of the period remaining for which the entity has the right to explore, the level of future budgeted expenditure and the level of potential commercially viable reserves to recover the carrying amount of exploration and evaluation assets.

When E&E assets are declared part of a commercial development, related costs are transferred to development and production assets. All E&E assets are assessed for any impairment prior to transfer and any impairment loss is recognised in the income statement.

Property, plant and equipment - development and production assets

For accounting purposes, a field enters into the development phase when the licence enters the commercial phase by having a plan for development and operation. Development and production assets are accumulated on a field-by-field basis and represent the cost of developing the commercial reserves discovered and bringing them into production, together with the E&E expenditures incurred in finding commercial reserves transferred from E&E assets as outlined above. All costs in the development phase, including direct costs or cost of own time are capitalised as tangible assets.

Development and production expenditure for the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of the development wells are capitalised as producing oil and gas properties and depreciated using the unit of production method by reference to the ratio of production in the year to the related estimated proven, probable and risked possible reserves. Generally , where property, plant and equipment has been acquired as part of a business combination, the reserves base utilised in unit-of-production calculations is consistent with that used to determine the initial fair value. Any changes in the reserves affecting unit-of-production calculations are reflected prospectively.

At each balance sheet date, the Company assesses assets or groups of assets, called cash generating units ('CGU's), for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or CGU may not be recoverable. If any such indication exists, the Company makes an estimate of the asset's recoverable amount using a fair value less costs of disposal method. The CGU applied for impairment test purposes is generally the field, except that a number of field interests may be grouped as a single CGU where the cash inflows of each field are interdependent. Discounted cash flow models comprising asset-by-asset life of field projections and risks specific to assets, using Level 3 inputs (based on IFRS 13 fair value hierarchy), have been used to determine the recoverable amounts. The cash flows have been modelled on a post-tax basis at management's estimate of a market participant weighted average cost of capital (WACC).

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to the recoverable amount. The resulting impairment losses are written off to the income statement. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in the income statement.

Decommissioning

Provision for future decommissioning costs is made in full when the Company has an obligation: to dismantle and remove a facility or an item of plant; to restore the site on which it is located; and when a reasonable estimate of that liability can be made. The Company's provision relates to the present value of the future decommissioning of production facilities, pipelines and the plugging and abandonment of wells. It is discounted to its present value using a risk free rate.

A decommissioning asset is recognised, within development and production assets of property, plant and equipment. The decommissioning asset is amortised over the life of the underlying asset on a unit of production basis and included within depletion in the income statement. Any change in the present value of estimated future decommissioning costs is reflected as an adjustment to the provision and the oil and gas asset. Where there has been a revision to the estimate of a provision related to an asset that has been fully depreciated, the change in the provision is taken directly to the income statement. The unwinding of the decommissioning liability is included under finance costs in the income statement.

These provisions have been created based on internal and third-party estimates. Assumptions based on the current economic environment have been made which management believe are a reasonable basis upon which to estimate the future liability.

These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works required, which will reflect market conditions and regulations at that time. Furthermore, the timing of decommissioning liabilities is uncertain and is likely to depend on the dates when the fields cease to be economically viable. This in turn depends on future oil and gas prices, which are inherently uncertain.

Transfer within common control

Transfers and acquisitions made by other subsidiaries within the Group are treated as common control transactions and the predecessor value method of accounting is applied. Under the predecessor value accounting method, no purchase price allocation is performed, the acquired assets and liabilities are recorded at their existing carrying values rather than at fair value, and no goodwill is recorded.

Related party disclosures

In accordance with the exemption allowed by FRS 101, no disclosures are made of transactions with wholly owned subsidiaries of NEO Energy Group Limited or compensation of key management.

Financial instruments

a) Classification and measurement

Financial assets

It is the Company's policy to initially recognise financial assets at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss which are expensed in the income statement.

Classification and subsequent measurement are dependent on the Company's business model for managing the asset and the cashflow characteristics of the asset. On this basis, the Company may classify its financial instruments at amortised cost, fair value through income statement and at fair value through other comprehensive income.

All the Company's financial assets as at 31 December 2022 satisfy the conditions for classification at amortised cost under IFRS 9 except derivative financial instruments which are measured at fair value through profit or loss or fair value through other comprehensive income.

The Company's financial assets include trade receivables, other receivables, derivative financial instruments and cash and bank balances. They are included in current assets, except for maturities greater than 12 months after the reporting date. Interest income from these assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in the income statement and presented in finance income/costs.

Financial liabilities

Financial liabilities of the Company are classified and measured at fair value on initial recognition and subsequently at amortised cost net of directly attributable transaction costs, except for derivatives which are classified and subsequently recognised at fair value through the profit or loss or fair value through other comprehensive income. Fair value gains or losses for financial liabilities designated at fair value through the profit or loss are accounted for as a profit or loss except for the amount of change that is attributable to changes in the Company's own credit risk which is presented in other comprehensive income. The remaining amount of change in the fair value of the liability is presented in the income statement.

The Company's financial liabilities include trade and other payables, derivative financial instruments and interest-bearing loans and borrowings.

b) Impairment of financial assets

Recognition of impairment provisions under IFRS 9 is based on the expected credit loss (ECL) model. The ECL model is applicable to financial assets classified at amortised cost and contract assets under IFRS 15: Revenue from Contracts with Customers. The measurement of ECL reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, time value of money and reasonable and supportable information that is available without undue cost or effort at the reporting date, about past events, current conditions and forecasts of future economic conditions.

The Company applies the simplified approach or the three-stage general approach to determine impairment of receivables depending on their respective nature, including intercompany receivables. The simplified approach is applied for trade receivables while the general approach is applied to cash and bank balances.

The simplified approach requires expected lifetime losses to be recognised from initial recognition of the receivables. This involves determining the expected loss rates using a provision matrix that is based on the Company's historical default rates observed over the expected life of the receivable and adjusted forward-looking estimates. This is then applied to the gross carrying amount of the receivable to arrive at the loss allowance for the period.

The three-stage approach assesses impairment based on changes in credit risk since initial recognition using the past due criterion and other qualitative indicators such as increase in political concerns or other macroeconomic factors and the risk of legal action, sanction or other regulatory penalties that may impair future financial performance. Financial assets classified as stage 1 have their ECL measured as a proportion of their lifetime ECL that results from possible default events that can occur within one year, while assets in stage 2 or 3 have their ECL measured on a lifetime basis.

Under the three-stage approach, the ECL is determined by projecting the probability of default (PD), loss given default (LGD) and exposure at default (EAD) for each ageing bucket and for each individual exposure. The PD is based on default rates determined by external rating agencies for the counterparties. The LGD is determined based on management's estimate of expected cash recoveries after considering the historical pattern of the receivable, and it assesses the portion of the outstanding receivable that is deemed to be irrecoverable at the reporting period. The EAD is the total amount of outstanding receivable at the reporting period.

These three components are multiplied together and adjusted for forward looking information to arrive at an ECL which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof. Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the related financial assets and the amount of the loss is recognised in the income statement.

Financial liabilities

The Company derecognises a financial liability when it is extinguished i.e. when the obligation specified in the contract is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised immediately in the income statement.

c) Modification

When the contractual cash flows of a financial instrument are renegotiated or otherwise modified, and the renegotiation or modification does not result in the derecognition of that financial instrument, the Company recalculates the gross carrying amount of the financial instrument and recognises a modification gain or loss immediately within finance income/costs-net at the date of the modification. The gross carrying amount of the financial instrument is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial instrument's original effective interest rate.

NEO Energy (ZNI) Limited

Notes to the financial statements for the year ended 31 December 2022

d) Offsetting of financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount is reported in the consolidated balance sheet. Offsetting can be applied when there is a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right is not contingent on future events and is enforceable in the normal course of business, and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

e) Derivatives

The Company uses derivative financial instruments such as forward exchange contracts to hedge its foreign exchange risks as well as puts and swap options to hedge against its oil and gas price risk. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and subsequently remeasured to their fair value at the end of each reporting period. Certain derivative financial instruments are designated as cash flow hedges in line with the Company's risk management policies. When derivatives are not designated for hedge accounting or are not designated as accounting hedges, changes in the fair value of the instrument are recognised within the income statement.

The Company does not enter into any hedge contracts with third parties. Any derivative financial instruments recognised, as stated above, are the result of a back to back hedging agreement with NEO Energy Upstream Limited, the Company's immediate parent.

Cash flow hedges

The cash flow hedge reserve represents gains and losses on derivatives classified as effective cash flow hedges. Upon the designation of option instruments as hedging instruments, the intrinsic and time value components are not separated.

The effective portion of gains and losses arising from the remeasurement of derivative financial instruments designated as cash flow hedges are deferred within other comprehensive income and subsequently transferred to the income statement in the period the hedged transaction is recognised in the income statement. When a hedging instrument is sold or expires, any cumulative gain or loss previously recognised in other comprehensive income remains deferred until the hedged item affects profit or loss or is no longer expected to occur. Any gain or loss relating to the ineffective portion of a cash flow hedge is immediately recognised in the income statement. Hedge ineffectiveness could arise if volumes of the hedging instruments are greater than the hedged item of production, or where the credit worthiness of the counterparty is significant and may dominate the transaction and lead to losses.

For foreign currency exposures, any realised gains or losses are recognised as finance costs in the income statement together with any realised gain or losses on interest rate hedges. Premiums in respect of commodity hedges are also included within finance costs.

f) Fair value of financial instruments

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When available, the Company measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily available and represent actual and regularly occurring market transactions on an arm's length basis.
Inputs to valuation techniques reasonably represent market expectations and measure the risk-return factors inherent in the financial instrument. The Company calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.
The best evidence of the fair value of a financial instrument at initial recognition is the transaction price – i.e. the fair value of the consideration given or received. However, in some cases, the fair value of a financial instrument on initial recognition may be different to its transaction price. If such fair value is evidenced by comparison with other observable current market transactions in the same instrument (without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets, then the difference is recognised in the income statement on initial recognition of the instrument. In other cases, the difference is not recognised in the income statement immediately but is recognised over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

See note 16 for further details on recognition of fair value measurements classification in accordance with the hierarchy described in IFRS 13 'Fair value measurement.

Cash flow hedge reserve

The cash flow hedge reserve represents gains and losses on derivatives classified as effective cash flow hedges. Upon the designation of option instruments as hedging instruments, the intrinsic and time value components are not separated.

Share capital, other equity instruments and reserves

Financial instruments issued are classified as equity when there is no contractual obligation to transfer cash, other financial assets or issue available number of own equity instruments. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

4 Critical accounting estimates and judgements

The preparation of the financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period, as well as the exercise of judgements. These estimates and judgments are based on management's best knowledge of the amount, event or actions and actual results ultimately may differ from those estimates. The critical accounting estimates and judgements that could result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are summarised below.

Critical accounting estimates

Depletion, depreciation and amortisation

Development and production expenditure for the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of the development wells are capitalised as producing oil and gas properties and depreciated using the unit of production method by reference to the ratio of production in the period to the related estimated proven, probable and risked possible reserves, where applicable, future development expenditures necessary to bring those reserves into production. Generally, where property, plant and equipment has been acquired as part of a business combination, the reserves base utilised in unit-of-production calculations is consistent with that used to determine the initial fair value.

Negative goodwill is allocated to underlying assets based on the acquisition cost allocated to each asset at acquisition. It is amortised over the life of the underlying assets on a unit of production basis.

Recoverability of deferred tax asset

Assumptions and judgements were used to determine the probability that deferred tax assets recognised in the financial statements will be recovered from taxable income in future years. The calculations involve judgements in two key areas:

1. Utilisation of available taxable losses: significant estimates are required in determining future phasing of the capital and operating programme, oil prices, production profile, and the resulting cash flows.

2. Estimation of the probable value of losses requires judgement regarding whether differences may arise between the value of tax losses submitted in tax computations and ultimately what may be agreed by the taxation authorities in the UK.

The recoverability of this value is sensitive to the assumptions used and any change in those assumptions could impact the recoverability of the asset in the absence of future acquisitions.

Other accounting estimates

Climate Change

The Company recognises that there may be potential financial implications in the future from the risk of climate change. The Company expects changes to policies, legislation and regulation to address climate change which could increase associated costs and administration requirements. These changes may in the future have an impact across various areas of accounting including impairment, fair values, potential increase in costs and contingent liabilities.

As at the balance sheet date the Company believes there is no material impact on balance sheet. Management's view is that at the end of the current reporting period there is no significant risk of climate change resulting in a material adjustment to the balance sheet within the next financial year.

5 Discontinued operations

Transfer of assets

The Group has grown significantly in recent periods following several significant corporate acquisitions. As a result, the size and complexity of the Group has increased and during 2022, the Group enacted a series of inter-affiliate asset transfers to optimise the structure of the Group. These steps were aimed at ensuring NEO is structured efficiently to continue to grow and achieve its ambition of being a leading producer in the United Kingdom Continental Shelf ("UKCS") and support MER UK.

During the period, the Company entered into a Sale and Purchase Agreement ("SPA") to transfer its interests in all remaining Group assets with NEO Energy Petroleum Limited with an effective date of 1 July 2022. A full list of assets subject to the transfer can be found in the Strategic Report and in note 14. Any activity attributable to these assets is therefore presented as results from discontinued operations.

These transfers included all of the Company's producing assets, therefore the full results presented in the income statement can be considered as results from discontinued operations.

6 Revenue

An analysis of the Company's revenue is as follows:

	2022	2021
	$'000	$'000
Oil sales	**111,656**	14,017
Gas and condensate sales	**239,784**	39,225
Other income	**7,822**	6,368
	359,262	59,610

Oil and gas revenue of $389.9 million (2021: $49.1 million) were from contracts with customers. This excludes the impact of the loss generated from realised hedging losses on oil and gas sales in the year of $38.5 million (2021: $10.5 million).

No significant judgements have been made in determining the timing of satisfaction of performance obligations and the transaction price and the amounts allocated to performance obligations. All revenue is generated in the UK and is recognised at a point in time.

7 Operating profit

	2022	2021
	$'000	$'000
Operating profit is stated after charging:		
Depletion, depreciation and amortisation costs (Note 14)	**64,244**	22,152
Other costs of goods sold	**75,864**	24,400
Negative goodwill amortisation (Note 13)	**(8,228)**	-
Audit of financial statements	**28**	27

8 Employee numbers and directors' remuneration

During the year the Company had no employees (2021: nil).

Some of the directors of the Company are also directors of the holding Companies and fellow subsidiaries. The directors were paid by another Company. The directors do not believe that it is practicable to apportion this amount between their services as directors of this Company and their services as directors of the holding Companies in which the remuneration has been disclosed.

9 Finance income

	2022 $'000	2021 $'000
Gain on foreign exchange	**-**	275

10 Finance costs

	2022 $'000	2021 $'000
Intercompany loan interest	**5,329**	-
Hedge costs	**4,068**	4,279
Unwinding of discount on decommissioning provisions (Note 18)	**1,583**	773
Bank charges and loan interest	**5**	509
Loss on foreign exchange	**113**	-
	11,098	5,561

11 Tax on profit

	2022 $'000	2021 $'000
Current tax:		
UK Corporation tax	**-**	-
Total current tax	**-**	-
Deferred tax:		
Origination and reversal of temporary differences	**83,463**	(172,874)
Prior year adjustments	**91**	(183)
Total deferred tax	**83,554**	(172,057)
Total tax charge / (credit)	**83,554**	(172,057)

NEO Energy (ZNI) Limited

Notes to the financial statements for the year ended 31 December 2022

Factors affecting tax charge / (credit) for the year

The charge / (credit) for the year can be reconciled to the profit before taxation per the income statement as follows:

	2022 $'000	2021 $'000
Profit before taxation	**216,228**	7,698
Tax on profit on ordinary activities at rate of 40% (2021: 40%)	86,491	3,079
Effects of:		
Current EPL	13,892	-
Non-deductible or non-taxable items	(2,758)	694
Effects of group relief	(13,892)	-
Investment allowance	(271)	(768)
Prior year adjustments	92	(183)
Re-recognition of deferred tax	-	(174,880)
Tax charge / (credit)	83,554	(172,057)

Deferred tax included in the balance sheet is as follows:

	Provisions $'000	Derivatives $'000	Tax losses & allowances $'000	Accelerated tax depreciation $'000	Total $'000
At 1 January 2022	**16,476**	**4,870**	**178,320**	**(11,190)**	**188,477**
(Charged) / credited to income statement	(556)	-	(105,907)	22,909	(83,554)
(Charged) / credited to the OCI	-	(4,870)	-	-	(4,870)
Transferred to group company	(15,920)	-	(67,934)	(11,719)	(95,573)
At 31 December 2022	-	-	**4,479**	-	**4,479**

On 26 May 2022, the UK Government announced their decision to introduce a new "windfall" tax on the energy industry called the Energy Profits Levy (EPL). The levy was introduced at 25% in addition to 30% ring fence corporation tax and the 10% supplementary charge to corporation tax increasing the effective tax rate from 40% to 65%. The measure included an 80% investment allowance applicable to EPL and was effective immediately on 26 May 2022 and intended to remain in place until 31 December 2025.

As part of the Autumn Statement on 17 November 2022, the UK Government announced their decision to increase the EPL from 25% to 35% and reduce the investment allowance to 29% effective from 1 January 2023. It is intended that the levy will remain in place until the end of March 2028. The further EPL rate increase brings the effective tax rate from 65% up to 75% and was substantively enacted during the year.

12 Asset transfers

Transfers and acquisitions made by other subsidiaries within the Group are treated as common control transactions and the predecessor value method of accounting is applied. Under the predecessor value accounting method, no purchase price allocation is performed, the acquired assets and liabilities are recorded at their existing carrying values rather than at fair value, and no goodwill is recorded.

Transfer of Elgin Franklin, SEAL, and GAEL

During the period, NEO Energy (ZNI) Limited entered into a Sale and Purchase Agreement ("SPA") for the transfer of their interests in the Elgin Franklin, SEAL, and GAEL assets with NEO Energy Natural Resources Limited with an effective date of 1 March 2022.

The total consideration of asset transfers were financed through a combination of existing loan novations and the creation of new intercompany loans. No gain or loss was recorded on completion of this transaction and no goodwill arose as a result.

The carrying value of the identifiable assets and liabilities subject to the SPA as at the effective date of 1 March 2022, were as follows:

	Total $'000
Property, plant and equipment - cost	321,057
Property, plant and equipment – accumulated DD&A	(19,663)
Deferred tax (liability)	(102,259)
Negative goodwill	(49,416)
Decommissioning liability	(45,747)
Other (including working capital)	28,237
Carrying value of identifiable net assets transferred	**132,209**
Financed by:	
Loan novation	(75,702)
Intercompany loan	(56,507)
Total consideration	**(132,209)**

These assets were subsequently transferred out of the Company on 1 July 2022, as part of the Group's reorganisation of assets.

Transfer of Shearwater, Starling, and Fram

During the period, NEO Energy (ZNI) Limited entered into a Sale and Purchase Agreement ("SPA") for the transfer of their interests in the Shearwater, Starling, and Fram assets with NEO Energy Natural Resources Limited with an effective date of 1 March 2022.

The total consideration of asset transfers were financed through a combination of existing loan novations and the creation of new intercompany loans. No gain or loss was recorded on completion of this transaction and no goodwill arose as a result.

The carrying value of the identifiable assets and liabilities subject to the SPA as at the effective date of 1 March 2022, were as follows:

	Total $'000
Property, plant and equipment - cost	900,381
Property, plant and equipment – accumulated DD&A	(54,515)
Deferred tax (liability)	(287,790)
Negative goodwill	(138,743)
Decommissioning liability	(126,392)
Other (including working capital)	22,577
Carrying value of identifiable net assets transferred	**315,518**
Financed by:	
Loan novation	(174,298)
Intercompany loan	(141,220)
Total consideration	**(315,518)**

These assets were subsequently transferred out of the Company on 1 July 2022, as part of the Group's reorganisation of assets.

NEO Energy (ZNI) Limited

Notes to the financial statements for the year ended 31 December 2022

13 Intangible assets

Cost	Negative goodwill $'000	Exploration assets $'000	Total $'000
At 1 January 2022	-	**11,008**	**11,008**
Transfer acquisition (Note 12)	(188,159)	-	(188,159)
Transfer disposal	188,159	(11,008)	177,151
At 31 December 2022	-	-	-
Accumulated impairment			
At 1 January 2022	-	**(1,987)**	**(1,987)**
Charge for the year	8,228	-	8,228
Transfer disposal	(8,228)	1,987	(6,241)
At 31 December 2022	-	-	-
Net book value			
At 31 December 2022	-	-	-
At 31 December 2021	-	9,051	9,051

The transfer acquisition of negative goodwill is as a result of the group asset transfer exercise conducted throughout 2022 (note 12).

14 Property plant and equipment

Cost	Development and production assets $'000
At 1 January 2022	**57,396**
Additions in the year	7,346
Asset transfer acquisition (Note 12)	1,221,438
Asset transfer disposal	(1,286,180)
At 31 December 2022	-
Accumulated depletion, depreciation and amortisation	
At 1 January 2022	**(38,425)**
Charge for the year	(64,244)
Asset transfer acquisition (Note 12)	(74,178)
Asset transfer disposal	176,847
At 31 December 2022	-
Net book value	
At 31 December 2022	-
At 31 December 2021	18,971

The asset transfers in the year relate to movement in the Company's interests in several assets. Assets transferred are detailed above in note 12. Subsequently the Company transferred out these assets, as well as any remaining assets held within the business. The assets are detailed in the table below.

NEO Energy (ZNI) Limited
Notes to the financial statements for the year ended 31 December 2022

Asset	Effective Date of Transfer	Transferee
Britannia	1 July 2022	NEO Energy Petroleum Limited
Causeway	1 July 2022	NEO Energy Petroleum Limited
Cormorant East	1 July 2022	NEO Energy Petroleum Limited
Courageous	1 July 2022	NEO Energy Petroleum Limited
Elgin Franklin	1 July 2022	NEO Energy Petroleum Limited
SEAL	1 July 2022	NEO Energy Petroleum Limited
GAEL	1 July 2022	NEO Energy Petroleum Limited
Kerloch	1 July 2022	NEO Energy Petroleum Limited
Leverett and Greenwell	1 July 2022	NEO Energy Petroleum Limited
Ruuval	1 July 2022	NEO Energy Petroleum Limited
Shearwater	1 July 2022	NEO Energy Petroleum Limited
Starling	1 July 2022	NEO Energy Petroleum Limited
Fram	1 July 2022	NEO Energy Petroleum Limited
Skerryvore	1 July 2022	NEO Energy Petroleum Limited

No gain or loss was recorded on completion of these transactions and no goodwill arose as a result.

Impairment testing

No impairment assessment was required as at year end due to the disposal of the company's assets during the year. The prior year impairment review used the following key assumptions:

Key assumptions used in calculations for year ended 31 December 2021

- The key assumptions required for the calculation of the recoverable amounts are:
- Oil & gas prices
- Oil & gas reserves and production volumes
- Currency exchange rates
- Discount rates, and
- Opex and capex costs

The key assumptions used for year end impairment testing are $78 per barrel of oil in 2022, $73 in 2023, and thereafter inflated by 2% per annum, £1.15 per therm of gas in 2022, £0.75 per therm of gas in 2023, £0.50 per therm of gas in 2023, 8% discount rate and 2% inflation rate.

Sensitivity to changes in assumptions

The Company's recoverable value of assets is sensitive to actual oil price achieved and production volumes. If either the producing volumes or oil price were to fall by -10% compared with the base assumptions, this would result in no impairment on oil and gas asset carrying values (2020: nil). A 1% increase in the discount rate would not result in any impairment to oil and gas carrying values.

NEO Energy (ZNI) Limited

Notes to the financial statements for the year ended 31 December 2022

15 Trade and other receivables

	2022	2021
	$'000	$'000
Trade receivables	246	-
Amounts owed by group undertakings	409,732	2,701
Underlift	-	726
Prepayments and accrued income	-	11,855
VAT	-	-
	409,978	15,282

Management considered the expected credit loss on intercompany receivables at 31 December 2022 of $409.7 million (2021: $2.7 million) in line with IFRS 9 'Financial Instruments'. The expected credit loss calculated was $0.6 million (2021: nil).

16 Derivative financial liability due to group undertakings

Effective from the 1 January 2021, the Company entered into a back to back agreement held between the company and the intermediate parent company, NEO Energy Upstream UK Limited. As a result, an allocation of both gains and losses arising from derivative trades and future liabilities have been allocated to the Company on a basis of actual and forecasted production respectively. For the year ended 31 December 2022 a $12.2 million gain through Other Comprehensive Income and intercompany receivable was recorded.

17 Trade and other payables

	2022	2021
	$'000	$'000
Trade payables	18	986
Overlift	-	822
Amounts due to group undertakings	118,661	3,294
VAT	37	73
Accrued expenses	-	2,605
	118,716	7,780

Amounts due to group undertakings are unsecured, have no fixed date of repayment and are repayable on demand.

The directors consider that the carrying amount of trade and other payables approximates to their fair value.

As at 31 December 2022, the lenders had a fixed and floating charge over all the assets of the Group and its principal operating subsidiaries including a charge over the shares in NEO Energy (ZNI) Limited.

18 Provisions

	Decommissioning provision
	$'000
At 1 January 2022	**41,191**
Asset transfer acquisition (Note 12)	172,139
Asset transfer disposal	(211,941)
Utilisation of provision	(2,972)
Unwinding of discount on decommissioning provisions (Note 10)	1,583
Total provisions at 31 December 2022	-
Reclassified to current liability	-
Long term provisions at 31 December 2022	-

The decommissioning liability was transferred out fully as part of the intra-group transfer of assets to NEO Energy Petroleum Limited.

19 Loans and other borrowings

	2022	2021
	$'000	$'000
Intercompany loan - NEO Energy Petroleum Limited	70,802	-
	70,802	-

	2022	2021
	$'000	$'000
Maturity of financial liabilities		
More than two years but not more than five years	70,802	-
Total	70,802	-

As of 31 December 2022, the Company has a long term intercompany loan owed to NEO Energy Petroleum Limited of $70.8 million (2021: nil). Interest of 4.6% is applied to the balance owed. The loan is unsecured and repayable by 17 July 2027.

20 Called up share capital

Number

		2022	2021
		$'000	$'000
Authorised, allotted, called up and fully paid			
36,567,334,504	Ordinary shares of £0.0000001 each (2021: £0.00072 each)	5	37,385

On 8 June 2022, the Company's issued share capital was reduced by cancelling and extinguishing capital to the extent of £0.0007199 on each issued ordinary share of £0.00072 each, reducing the nominal value of each issued ordinary share to £0.0000001 each, and the Company's share premium account was reduced to nil.

21 Ultimate parent undertaking

As at 31 December 2022 and December 2021, the immediate parent company was NEO Energy (ZPL) Limited.

As at 31 December 2022 and December 2021, NEO Energy Group Limited is the largest and smallest Company to consolidate these financial statements. The consolidated financial statements for NEO Energy Group Limited, can be obtained from Companies House, 4th Floor, Edinburgh Quay 2, 139 Fountainbridge, Edinburgh, EH3 9FF.

As at 31 December 2022 and 31 December 2021, the ultimate parent undertaking and controlling party is HitecVision VI, LP, a Private Equity Fund based in Guernsey. HitecVision VII, LP and HitecVision North Sea Opportunity Fund, LP also hold non-controlling interests in the Group.

22 Capital commitments

At the balance sheet date, the amounts contracted in relation to ongoing projects but not provided for in the financial statements totalled $Nil (2021: $1.7 million).