NEO Energy Upstream UK Limited

Report and Financial Statements

For the year ended 31 December 2022

Registered number: SC279865

NEO Energy Upstream UK Limited

Report and Financial Statements
For the year ended 31 December 2022

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NEO Energy Upstream UK Limited

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NEO Energy Upstream UK 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 Upstream UK Limited ('the Company') holds investments in companies which are focused on the development and production of offshore oil and gas fields in the United Kingdom Continental Shelf ("UKCS"). It also held an interest in a North Sea oil and gas field which was transferred out in March 2022 and operates as the employing and administrative service company of the NEO Group which is headed by NEO Energy Group Limited ("NEO" or "the Group"). The future outlook has been documented in the Strategic Report.

Business review

The Company results for the year are shown in the Statement of Comprehensive Income on page 15. The profit after tax for the year was $1,485.7 million (2021: loss $107.8 million).

On 15 June 2022, the Company's wholly owned subsidiary, NEO Energy Production UK Ltd declared a dividend of $175.0m to the Company. The Board of NEO Energy Production UK Ltd had ascertained, based on the accounts available at the time, the distributable reserves of the Company at that time to be sufficient to justify the Company making the dividend in full. Subsequently, it was determined that the accounting treatment for the inter-affiliate transfers enacted during the period was different than that expected and the interim accounts, which justified the dividend, required to be updated. Accordingly, the distributable reserves available as at the date of the dividend were insufficient to support the full amount of the dividend.

As a result, on 6 September 2023 the Board of NEO Energy Production UK Ltd resolved to: (i) recategorise the element of the dividend that was in excess of distributable reserves as a loan made by NEO Energy Production UK Ltd to the Company; and (ii) ratify and acknowledge $149.6m of the dividend was made in accordance with legislative requirements following the correction of the interim accounts - with the relevant matters approved by the Company as NEO Energy Production UK Ltd's shareholder. This resulted in a decrease of $25.4m in the amount due to the Company, which has been recognised in the 2022 accounting period.

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 transferred its interest in the Forties asset to NEO Energy Central North Sea Limited on 1 March 2022. This transfer was made on a nil gain, nil loss basis.

The cash balance at the end of 2022 was $470.0 million (2021: $17.8 million). Net assets at the end of 2022 were $90.0 million (2021: net liabilities $86.9 million).

The list of investments held by the Company is shown in Note 12.

On 8 June 2022, the share capital was reduced by cancelling 31,479,484 of the issued ordinary shares by way of written special resolution.

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 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 NEO Energy Group Limited financial statements, and do not form part of this report.

NEO Energy Upstream UK Limited

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

Health, safety and the environment (HSE)

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.

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 to act 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 Company, 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, 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).

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, renumeration 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 has 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 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 Group, 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 is managed collectively with the rest of NEO 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.

Approved and signed on behalf of the Board.

DocuSigned by:
Robert Gair
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Robert Gair
Director
7 September 2023

NEO Energy Upstream UK 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:

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

Dividends

Dividends of $1,350.2 million were approved by the Directors and paid 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 Director's assessment of the Group and the Company's ability to continue as a going concern.

Financial risk management

The Company's operations expose it to financial risks, including the effects of changes in commodity prices, 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 Group statutory accounts which can be obtained from Companies House. With the exception of Principle 2 – Board Composition, all principles disclosed in the Group statutory accounts, are applicable to the Company, as stated. The details for Board Composition for the Company are detailed below.

Principle 2 - Board Composition

The Company's Board of Directors comprises Paul Harris (CEO & COO), Andrew McIntosh (General Council & Head of Business Services), Robert Gair (CFO) and Martin Rowe (Chief Technical Officer)

Streamlined Energy and Carbon Reporting

The Company has taken exemption for Streamlined Energy and Carbon Reporting, in accordance with the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018, as a subsidiary undertaking of NEO Energy Group Limited which has the same reporting period. Detailed streamlined energy and carbon reporting disclosures are included within the annual report of NEO Energy Group Limited.

NEO Energy Upstream UK Limited

Post balance sheet events

The Company approved and paid a dividend of $100 million on 27 March 2023.

On 7 March 2023 the Company repaid $328.5 million of the borrowings drawn under its RBL facility.

On 27 March 2023 the Company received a dividend of $100.0 million from NEO Energy Natural Resources Limited.

On 27 March 2023 the Company received a dividend of $200.0 million from NEO Energy Petroleum Limited.

On 6 April 2023 the Company announced that it had entered into an agreement with Jersey Oil & Gas to acquire a 50% interest in the Greater Buchan Area (GBA) licenses. The agreement completed on 21 June 2023 and the interest of GBA was subsequently transferred to a fellow group company, NEO Energy (ZEX) Limited, on 1 August 2023.

Signed on behalf of the Board:

DocuSigned by:
Robert Gair
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Robert Gair
Director
7 September 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 Upstream UK Limited

Report on the audit of the financial statements

Opinion

In our opinion, NEO Energy Upstream UK 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; and
- 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
7 September 2023

NEO Energy Upstream UK Limited

Income Statement
Year ended 31 December 2022

	Note	Discontinued operations 2022	Continuing operations 2022	**Total 2022**	Discontinued operations 2021	Continuing operations 2021	Total 2021 Restated*
		$'000	$'000	**$'000**	$'000	$'000	$'000
Revenue		5,759	-	**5,759**	-	-	-
Other operating income		-	177	**177**	-	-	-
Total revenue	6	5,759	177	**5,936**	-	-	-
Cost of goods sold		(4,268)	(1,003)	**(5,271)**	(1,051)	(5,499)	(6,550)
Administrative expenses		-	(17,824)	**(17,824)**	-	(24,116)	(24,116)
Exploration and evaluation expenses		-	(2,420)	**(2,420)**	-	(1,315)	(1,315)
Investment write off	12	-	(342,067)	**(342,067)**	-	-	-
Depletion, depreciation and amortisation	13	(244)	(1,890)	**(2,134)**	-	(1,177)	(1,177)
Fair value changes in contingent consideration	20	-	9,199	**9,199**	-	(30,000)	(30,000)
Other expenses		-	(17,542)	**(17,542)**	-	(23,851)	(23,851)
Operating profit/(loss)	7	1,247	(373,370)	**(372,123)**	(1,051)	(85,958)	(87,009)
Income from subsidiary		-	2,016,435	**2,016,435**	-	-	-
Profit / (loss) before interest and taxation		1,247	1,643,065	**1,644,312**	(1,051)	(85,958)	(87,009)
Finance income	9	-	37,288	**37,288**	(3,381)	26,018	22,637
Finance costs	10	(1,479)	(201,332)	**(202,811)**	(97)	(42,866)	(42,963)
Profit / (loss) before taxation		(232)	1,479,021	**1,478,789**	(4,529)	(102,806)	(107,335)
Income tax	11	546	6,350	**6,896**	(512)	-	(512)
Profit / (loss) after taxation for the financial year		314	1,485,371	**1,485,685**	(5,041)	(102,806)	(107,847)

* 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.

NEO Energy Upstream UK Limited

Statement of Comprehensive Income
For the year ended 31 December 2022

	Note	2022 $'000	2021 $'000
Profit / (loss) after taxation for the financial year		**1,485,685**	(107,847)
Items that may be classified to income statement:			
Fair value movement on cash flow hedges	21	**54,068**	(43)
Tax on cash flow hedges		**(12,723)**	(16)
Total other comprehensive income / (expense) for the year, net of tax		**41,345**	(59)
Total comprehensive income / (expense) for the year		**1,527,030**	(107,906)
Attributable to:			
Owners of the parent		**1,527,030**	(107,906)

The notes on pages 19 to 47 form an integral part of these financial statements.

NEO Energy Upstream UK Limited

Statement of Financial Position
As at 31 December 2022

	Note	2022 $'000	2021 $'000
Non-current assets			
Investments	12	**1,613,337**	1,517,645
Property, plant and equipment	13	**17,357**	80,242
Amounts due from group undertakings	14	**1,580,072**	824,208
Derivative financial assets	21	**45,900**	3,953
		3,256,666	2,426,048
Current assets			
Trade and other receivables	15	**481,912**	254,893
Cash and cash equivalents	16	**470,047**	17,749
Derivative financial assets due from group undertaking	21	-	152,859
Derivative financial assets	21	**386,732**	96,216
		1,338,691	521,717
Total assets		**4,595,357**	2,947,765
Current liabilities			
Trade and other payables	17	**(1,799,862)**	(952,868)
Derivative financial liabilities	21	**(59,386)**	(236,126)
Derivative financial liabilities due from group undertaking	21	**(327,159)**	-
Net current liabilities		**(847,716)**	(667,277)
Total assets less current liabilities		**2,408,950**	1,758,771
Non-current liabilities			
Deferred tax liabilities	11	**(6,353)**	(529)
Lease liabilities	13	**(7,532)**	(9,730)
Loans and other borrowings	18	**(2,222,075)**	(1,367,447)
Provisions	19	**(830)**	(49,933)
Other non-current liabilities	20	**(82,174)**	(401,075)
Derivative financial liabilities	21	-	(16,932)
Total liabilities		**(4,505,371)**	(3,034,640)
Net assets / (liabilities)		**89,986**	(86,875)
Equity			
Called up share capital	23	-	14,864
Share premium	24	-	118,869
Capital redemption reserve	25	**14,601**	14,601
Cash flow hedge reserve	21	**41,286**	(59)
Currency translation reserve		**10,247**	10,247
Retained earnings / (accumulated losses)		**23,852**	(245,397)
Total equity		**89,986**	(86,875)

These financial statements were approved and authorised for issue by the Board on 7 September 2023 and are signed on its behalf by:

DocuSigned by:
Robert Gair Robert Gair
Director 2E841F9CC89D490...

The notes on pages 19 to 47 form an integral part of these financial statements. Registered no. SC279865

NEO Energy Upstream UK Limited

Statement of Changes in Equity
Year ended 31 December 2022

	Share capital $'000	Share premium $'000	Capital redemption reserve $'000	Cash flow hedge reserve $'000	Currency translation reserve $'000	(Accumulated losses) / Retained earnings $'000	Total equity $'000
Balance at 1 Jan 2021	**14,864**	**118,869**	**14,601**	**-**	**10,247**	**(137,550)**	**21,031**
Loss and total comprehensive expense for the financial year	-	-	-	(59)	-	(107,847)	(107,906)
Balance at 31 Dec 2021	**14,864**	**118,869**	**14,601**	**(59)**	**10,247**	**(245,397)**	**(86,875)**
Profit for the year	-	-	-	-	-	1,485,685	1,485,685
Other comprehensive income	-	-	-	41,345	-	-	41,345
Total comprehensive income for the financial year	-	-	-	41,345	-	1,485,685	1,527,030
Transactions with owners							
Capital reduction	(14,864)	(118,869)	-	-	-	133,733	-
Dividends paid	-	-	-	-	-	(1,350,169)	(1,350,169)
Balance at 31 Dec 2022	**-**	**-**	**14,601**	**41,286**	**10,247**	**23,852**	**89,986**

NEO Energy Upstream UK Limited

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

1 General information

NEO Energy Upstream UK Limited is a Private Company, limited by shares and incorporated and domiciled in the United Kingdom under the Companies Act 2006. The Company is registered in Scotland and the address of its registered office is: The Silver Fin Building (9th Floor), 455 Union Street, Aberdeen AB11 6DB.

The nature of the Company's operations and its principal activities are those of an investment holding in companies which are focused on the development and production of offshore oil and gas fields in the United Kingdom Continental Shelf ("UKCS"). It also held an interest in a North Sea oil and gas field which was transferred out on 1 March 2022, and operates as the employing and administrative service company of the NEO Group which is headed by NEO Energy Group Limited ("NEO" or "the Group").

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 7 September 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 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 26 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. Consequently, the Company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 400 of Companies Act 2006. These financial statements therefore present information about the Company as an individual undertaking and not the Group.

The Company has taken advantage of the following disclosure exemptions under FRS 101:
– 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);
    i. Paragraph 73(e) of IAS 16 'Property, plant and equipment'; (reconciliation of the carrying amount at the beginning and end of the period);
– The following paragraphs of IAS 1, 'Presentation of financial statements':
  (i) 10(d), (statement of cash flows);
  (ii) 10(f) (a balance sheet as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements);
  (iii) Paragraph 16 (statement of compliance with all IFRS);
    i. 38B-D (additional comparative information);
    ii. 111 (cash flow statement information); and
    iii. 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).

– Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement'(disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).

Going concern

The Company is part of the NEO Energy Group Limited (the "Group") and has net current liabilities of $847.7 million as at 31 December 2022 (2021: net current liabilities $667.3 million), which includes net intercompany balances of $1,009.4 million (2021: $571.9 million) due to NEO Energy 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 Group 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 £3.1 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

Investments in subsidiaries in the Company's balance sheet are stated at cost less, where appropriate, provisions for impairment. NEO will also consider the impairment of any investments that have paid a dividend in the period.

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.

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 Company adopted hedge accounting under IFRS 9; therefore, the effects of realised oil 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 the accounting period 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 including 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 royalties, transportation tariffs and field operating costs. These are recognised as incurred.

Dividend Income

Dividend income is recognise when he right to receive payment is established.

Dividend Distribution

Dividend distributions to the company's shareholder are recognised as a liability in the company's financial statements in the period in which the dividends are approved by the company's shareholders.

Pensions

The Company's employees and directors receive contributions to the Company Defined Contribution Pension Plan which is charged to the Income statement on an accruals basis.

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 is a management company which incurs costs in multiple currencies with United States Dollars cost being the most significant.

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 year.

Cash and cash equivalents

Cash and cash equivalents includes 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.

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.

NEO Energy Upstream UK Limited

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

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.

Property, plant and equipment

Property, plant and equipment, other than oil and gas assets, are stated at cost less accumulated depreciation and any provision for impairment. Depreciation is charged so as to write off the cost, less estimated residual value, of assets on a straight-line basis over their useful lives as follows:

Office equipment:	3-5 years
Furniture and fittings:	3-5 years
Leasehold improvements:	over the lease term

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.

Leases

Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability, any lease payments made at or before the commencement date less any lease incentives received, and any initial direct costs. Right-of-use assets are depreciated over the lease term on a straight-line basis. In addition, the right-of-use asset is reviewed for impairment and adjusted for certain re-measurements of the lease liability.

Lease liabilities arising from a lease, are initially measured at the present value of the lease payments to be made over the lease term and are discounted using the interest rate implicit in the lease or the Company's incremental borrowing rate where the interest rate implicit in the lease is not available. Liabilities have been measured at the present value of the remaining lease payments, discounted using a rate of 5%, which is the Company's estimate of the incremental rate relating to office leases.

Lease payments are split between financing cash flows and operating cash flows in the cash flow statement. Financing cash flows represent repayment of principal and interest.

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.

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.

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 21 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 year, 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.

Oil and gas reserves

Oil and gas reserves are estimated by the Group in accordance with industry standards. The estimates are based on the Group's own assessment of internal information and information received from operators, whilst an external specialist is engaged for the purpose of assessing the appropriateness of the Group's internal estimate. Based on internal expert's view, certain contingent volumes that do not meet the reserve industry criteria are included if they are considered to be sufficiently mature.

Reserves are used in the calculation of depletion, depreciation and amortisation of producing oil and gas assets, impairment testing and may influence life of field assumptions that impact the assumed timing of decommissioning activities. The reserve estimates may change based on various factors including updated production and reservoir information and changes in underlying assumptions such as assumed petroleum prices and cost estimates which may impact the assumed economic cut-off of oil and gas fields.

Decommissioning

The Company holds provisions for the future decommissioning of oil and gas production facilities and pipelines at the end of their economic lives. The largest decommissioning obligations facing the Company relate to the plugging and abandonment of wells and the removal and disposal of oil and natural gas platforms and pipelines in the UK.

The Company considers the impact of climate change on decommissioning provisions, specifically the timing of future cash flows, and has concluded that it does not currently represent a key source of estimation uncertainty. Changes to legislation, including in relation to climate change, are factored into the provisions when the legislation becomes enacted.

Decommissioning technologies and costs are constantly changing, as are political, environmental, safety and public expectations. The timing and amounts of future cash flows are subject to significant uncertainty and estimation is required in determining the amounts of provisions to be recognised. Any changes in the expected future costs are reflected in both the provision and the asset.

The estimated decommissioning costs and the pre-tax discount rate applied take into account the effects of inflation and the risks and uncertainties concerning amounts to be settled in the future.

Investments

Investments in subsidiary undertakings are stated at cost, less any impairment. Investments are tested for impairment annually. In assessing whether investment assets have been impaired, the carrying value of the investments is compared to the investees net assets per its separate financial statements.

Where an indicator of impairment exists, carrying values have been considered on a case by case basis with due consideration of any difference that may exist between net assets and the recoverable amount of the investment. These differences can arise where the carrying value of property, plant and equipment (PP&E) is lower than fair value of the PP&E, noting that it cannot be any higher, given an asset impairment test will have been conducted. Differences may also occur where investment carrying values are below the valuation of net asset of a subsidiary.

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. The Company recognises that there may be potential financial implications in the future from climate change risk, and have included an estimation of future cash flows associated with the purchasing of carbon emissions allowances and certain capital expenditure projects targeted at reducing carbon emissions.

As at the balance sheet date the Company believes there is no material impact on balance sheet carrying values of assets or liabilities. 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 carrying amounts of assets and liabilities within the next financial year.

5 Discontinued operations

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.

Transfer of Forties asset

During the period, the Company, entered into a Sale and Purchase Agreement ("SPA") for the transfer of Forties with NEO Energy Central North Sea Limited with an effective date of 1 March 2022. Therefore, any activity attributable to this asset is presented as results from discontinued operations.

The results of the discontinued operations, which have been included in the income statement, were as follows:

	2022	2021
	$'000	$'000
Revenue	**5,759**	-
Net expenses	**(4,991)**	(4,529)
Loss before tax	**(232)**	(4,529)
Tax expense relating to profit before tax of discontinued operations	**546**	(512)
Net profit/(loss) attributable to discontinued operations	314	(5,041)

6 Revenue

An analysis of the Group's revenue from contracts with customers is as follows:

	2022	2021
	$ 000	$ 000
Oil revenue	**5,759**	-
Gas and condensate revenue	**-**	-
Total petroleum revenue	**5,759**	-
Other income	**177**	-
Total other operating income	**177**	-
Total revenue	**5,936**	-

Petroleum revenue of $5.8 million (2021: $nil) were from contracts with customers. This excludes realised hedging losses on oil and gas sales in the year of $30k (2021: $nil).

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 loss

	2022	2021
	$'000	$'000
Operating loss is stated after charging / (crediting)		
Depletion, depreciation and amortisation costs (Note 13)	**2,134**	1,177
Intercompany receivable provision	**-**	853
Fair value changes in contingent consideration (Note 20)	**(9,199)**	30,000
Other expenses	**17,542**	23,851
Impairment of investment (Note 12)	**342,067**	-
Audit of financial statements	**47**	38

Fair value changes in contingent consideration in 2022 arose due to a change in the discount rate from 3.84% to 7.56% used in the calculation to determine the present value of future payments.

Investment write off relates to the impairment of the investment held in NEO Energy (UKCS) Limited. During the period NEO Energy (UKCS) Limited paid a dividend to NEO Upstream UK Limited which served to settle a large intercompany receivable. As a result of the distribution, the investment value held by NEO Energy Upstream UK Ltd was considered to be impaired.

8 Employee numbers and directors' remuneration

Average monthly number of persons employed (including executive directors)

	2022	2021
	No.	No.
Technical and operations	**123**	91
Management & administration	**81**	57
	204	148

	2022	2021
	$'000	$'000
Wages and salaries	**29,087**	20,591
Social security costs	**4,634**	1,121
Other pension costs	**2,109**	3,078
	35,830	24,790

Five (2021: five) directors of the Company received remuneration in respect of their services during the year.

The aggregate emoluments of the directors of the Company for the year or from date of appointment were as follows:

	2022	2021
	$'000	$'000
Directors' emoluments	**3,631**	3,127

The five (2021: five) directors who received the emoluments above were remunerated through the Company. Directors' emoluments for the year include nil compensation for loss of office (2021: nil).

Highest paid director

The above amounts for remuneration include the following in respect of the highest paid director:

	2022	2021
	$'000	$'000
Emoluments	**1,217**	1,061

The emoluments of the highest paid director do not include any for compensation for loss of office (2021: nil).

NEO Energy Upstream UK Limited

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

9 Finance income

	2022	2021
	$'000	$'000
Intercompany loan interest	32,698	15,322
Hedging gains	-	4,206
Bank interest	4,590	-
Gain on foreign exchange	-	3,109
	37,288	22,637

The Company enters for all group companies into forward commodity and foreign currency contracts to mitigate the commodity price and exchange rate risk for production and certain foreign currency receivables/payables of its subsidiaries (see Note 21). The Company has also entered into a back-to-back agreement with the subsidiaries allocating both gains and losses arising from derivative trades based on production.

Hedge gain for the prior year is the result of foreign exchange differences on the USD value of GBP settled gas losses and premiums allocated to subsidiaries as per the back to back hedging agreement.

10 Finance costs

	2022	2021
	$'000	$'000
Bank interest and fees	169,289	41,606
Unwinding of discount on decommissioning provisions (Note 19)	1,241	82
Parent company loan interest	782	-
Letter of credit	7,934	1,275
Loss on foreign exchange	13,762	-
Hedging costs	9,803	-
	202,811	42,963

Hedge costs for the year represent premiums paid on hedge agreements which have not been allocated out to subsidiaries, as well as the net foreign exchange hedge and interest rate swap losses.

NEO Energy Upstream UK Limited

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

11 Tax

	2022 $ 000	2021 $ 000
Current tax		
UK corporation tax	**3**	-
Total current tax	**3**	-
Deferred tax		
Origination and reversal of temporary differences	**4,314**	(512)
Prior year adjustments	**(4,860)**	
Recognition of deferred tax asset	**(6,353)**	
Total deferred tax	**(6,899)**	
Total tax charge	**(6,896)**	(512)

Factors affecting tax charge for year

The charge for the year can be reconciled to the loss per the income statement as follows:

	2022 $'000	2021 $'000
Profit / (loss) before taxation	**1,478,788**	(107,333)
Tax charge on profit / (loss) at standard UK rate of 19% (2021: 19%)	**280,970**	(20,393)
Effects of:		
RDEC	**3**	-
Non-deductible or non-taxable income	**(383,123)**	(292)
Expenses not deductible	**67,340**	5,740
Foreign exchange differences	-	(242)
Effects of Company relief	**5,434**	-
Effects of income at different tax rates	**44**	-
Ring fence expenditure supplement	-	(52)
Deferred tax not recognised	**22,982**	14,727
Prior year adjustment	**(4,860)**	-
Disposal	**4,314**	-
Tax charge for the year	**(6,896)**	(512)

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 bringing the effective tax rate from 40% up 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.

The company has gross tax losses and other deductible temporary differences which are available indefinitely for offset against future taxable profits and which exceed other temporary differences by $172.8 million (2021: $97.5 million). Deferred tax assets have not been recognised in respect of these losses due to the uncertainty of availability of suitable future profits from which they can be deducted.

NEO Energy Upstream UK Limited

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

Deferred tax liability	Accelerated tax depreciation $'000	Derivatives $'000	Tax losses & allowances $'000	Total $'000
At 1 January 2022	**(512)**	**(17)**	**-**	**(529)**
Credited to the OCI	-	(12,723)	-	(12,723)
Credited to the income statement	63	-	1,996	2,059
Prior year adjustment	449	34	4,357	4,840
At 31 December 2022	**-**	**(12,706)**	**6,353**	**(6,353)**

	2022 $'000	2021 $'000
Disclosed on the balance sheet		
Deferred tax liability	(6,353)	(529)

12 Investments

	$'000
At 1 January 2022	**1,517,645**
Acquisitions	437,759
Impairment	(342,067)
At 31 December 2022	**1,613,337**

On 29 March 2022, the Company acquired 100% share capital of JX Nippon Exploration and Production (U.K.) Limited, an independent oil and gas company with a portfolio of assets located in the Central and Northern North Sea, and its subsidiaries.

Total consideration for the acquisition was $1,137.8 million, $700 million of which was treated as an intercompany loan to NEO Energy Petroleum Limited. The business combination accounting and fair values of these acquisitions are contained in the NEO Energy Group Limited consolidated financial statements (see Note 12 of consolidated financial statements).

At 31 December 2022, the subsidiary undertakings were:

Name	Country of incorporation /operation	Nature of Business	Percentage Holding
NEO Energy (CNS) Limited *	UK	****	100%
NEO Energy (Exploration) Limited **	UK	****	100%
NEO Energy Oil & Gas Limited **	UK	Dormant company	100%
NEO Energy (SNS) Limited *	UK	****	100%
NEO Energy (Production) Limited **	UK	****	100%
NEO Energy Enterprises Limited **	UK	****	100%
NEO Energy Enterprises (North Sea) Limited **	UK	Non-trading company	100%
NEO E&P Holding Limited **, (dissolved in 2022)	UK	Holding company	100%
NEO E&P Midco Limited **, (dissolved in 2022)	UK	Holding company	100%
NEO E&P Limited **, (dissolved in 2022)	UK	Holding company	100%
NEO Energy (UKCS) Limited **	UK	****	100%
NEO Energy Production UK Limited **	UK	****	100%
NEO Energy (ZNS) Limited **	UK	****	100%
NEO Energy Pathway Limited **	UK	****	100%
NEO Energy (ZNI) Limited ***	UK	****	100%
NEO Energy (ZEX) Limited **	UK	****	100%
NEO Energy (ZEL) Limited **	UK	****	100%
NEO Energy (ZPL) Limited **	UK	****	100%
NEO Energy Central North Sea Limited **	UK	****	100%
NEO Energy (ZOG) Limited **	UK	****	100%
NEO Energy Natural Resources Limited **	UK	****	100%
NEO Energy Petroleum Limited **, (acquired in 2022)	UK	****	100%

* Registered address - The Silver Fin Building (9th Floor), 455 Union Street, Aberdeen, AB11 6DB
** Registered address - 30 St. Mary Axe, London, EC3A 8BF
*** Registered address - Pinsent Masons Llp, The Soloist, 1 Lanyon Place, Belfast, Northern Ireland, BT1 3LP
**** The nature of business for all the companies above is Oil & Gas development & production

Impairment testing of investments in subsidiaries

In accordance with IAS 36 Impairment of Assets, investments have been reviewed for impairment at the year end.

The investment write off in the current year relates to the impairment of the investment held in NEO Energy (UKCS) Limited. During the period NEO Energy (UKCS) Limited paid a dividend to NEO Upstream UK Limited which served to settle a large intercompany receivable. As a result of the distribution, the investment value held by NEO Energy Upstream UK Ltd was considered to be impaired.

Key assumptions used in calculations

The key assumptions required for the calculation of the recoverable amounts are:

- Oil and gas prices
- Oil & gas reserves and production volumes
- Currency exchange rates
- Discount rates, and
- Opex and capex costs

The key assumptions used in year end impairment testing are $84 (2021: $78) per barrel of oil in 2023, $79 in 2024, and thereafter inflated by 2% per annum, £2.01 (2021: £1.15) per therm of gas in 2023, £1.97 per therm of gas in 2024 (2021: £0.75), £1.00 per therm of gas in 2025 and thereafter inflated by 2%, 8.5% (2021: 8%) discount rate and 2% (2021: 2%) inflation rate.

Sensitivity to changes in assumptions

The Company's recoverable value of investments 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 have no impact on the investment carrying value (2021: no impact). The above sensitivities have flexed revenues and tax cash flows, but operating costs and capital expenditures have been kept constant.

13 Property, plant and equipment

Cost	Office equipment, furniture & fittings $'000	Right-of-use asset: Building $'000	Development and production assets $'000	Leasehold improvements $'000	Total $'000
At 1 January 2022	**664**	**11,073**	**67,798**	**2,768**	**82,303**
Additions in the year	6,359	-	72	480	6,911
Asset transfer disposal	-	-	(67,870)	-	(67,870)
Revaluation	-	(36)	-	-	(36)
At 31 December 2022	**7,023**	**11,037**	-	**3,248**	**21,308**
Accumulated depletion, depreciation and amortisation					
At 1 January 2022	**(636)**	**(1,141)**	-	**(284)**	**(2,061)**
Charge for the year (Note 7)	(43)	(1,278)	(245)	(569)	(2,135)
Asset transfer disposal	-	-	245	-	245
At 31 December 2022	**(679)**	**(2,419)**	-	**(853)**	**(3,951)**
Net book value					
At 31 December 2022	**6,344**	**8,618**	-	**2,395**	**17,357**
At 31 December 2021	28	9,932	67,798	2,484	80,242

The Company transferred its interest in the Forties asset to NEO Energy Central North Sea Limited on 1 February 2022. This transfer was made on a nil gain, nil loss basis

Right-of-use assets

In addition to the right-of-use assets, the balance sheet also includes the following amounts relating to the leased buildings:

Lease liabilities

	2022 $'000	2021 $'000
Current (Note 15)	**1,113**	905
Non-current	**7,532**	9,730
	8,645	10,635

14 Amounts due from group undertakings

	$'000
Loan balances due from Subsidiaries at 1 January 2022	**824,208**
New loans made in the year	723,166
Loan interest accrued	32,698
Loan balances due from Subsidiaries at 31 December 2022	**1,580,072**

The loan between the Company and its subsidiaries is to fund expenditure on oil and gas extraction activities. All outstanding Loans together with all accrued interest and all other amounts due shall be repaid on the Reserve Based Lending termination date (see note 18). The percentage interest rate per annum is the aggregate of an agreed interest rate between the Borrower and the Lender and 0.76% per annum.

On 29 March 2022, the non-current intercompany loan was transferred from JX Nippon Finance Netherlands B.V. to NEO Energy Upstream Limited on equivalent terms when the Company was sold from JX Nippon Oil and Gas Exploration Corporation to NEO Energy Upstream Limited. Prior to this transfer, the interest rate as at 31 December 2021 was set at a floating rate of 0.9 %. The interest rate for the non-current third party loan prior to assignation was set at a floating rate of 0.1 % above 6-month Libor for the first two years and then 0.5% above 6-month Libor.

15 Trade and other receivables

	2022	2021
	$'000	$'000
Trade receivables	-	1,967
Other receivables	-	39,041
Amounts due from group undertakings	**436,274**	197,138
Underlift	-	2,261
VAT receivable	**1,614**	1,254
Prepayments	**44,024**	13,232
	481,912	254,893

The directors consider that the carrying amount of trade and other receivables approximates to their fair value due to their short term nature. Trade and other receivables are not overdue as the payment terms established with the customers have not been exceeded.

Management considered the expected credit loss on amounts the due from group undertakings balance of $455.0 million (2021: 197.1 million) in line with IFRS 9, 'Financial Instruments'. The expected credit losses provided for in the year is $1.4 million (2021: $1.4 million). The expected credit loss calculated for all other receivables was immaterial and therefore no further adjustment has been applied.

On 26 November 2021, NEO Energy Holding Limited, paid a deposit for the acquisition of JX Nippon Exploration and Production (U.K.), on behalf on NEO Energy Upstream UK Limited, of $39.0 million which was settled during the year.

16 Cash and cash equivalents

	2022	2021
	$'000	$'000
Cash at bank	**470,047**	17,749

NEO Energy Upstream UK Limited

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

17 Trade and other payables

	2022 $'000	2021 $'000
Trade payables	6,950	986
Amounts due to group undertakings	1,445,631	769,041
Other tax and social security	1,298	1,246
Accruals	22,532	120,222
Contingent consideration (Note 12)	322,338	60,468
Lease liabilities (Note 13)	1,113	905
	1,799,862	952,868

Amounts due to group undertakings are unsecured, with no interest, 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.

Contingent consideration relates to the TotalEnergies, Zennor and ExxonMobil CNNS acquisitions. The non-current portion is detailed in note 20.

18 Loans and other borrowings

Long term debt

	2022 $'000	2021 $'000
Current bank loan	-	-
Non-current bank loan	2,249,320	1,403,000
Outstanding loan amount	2,249,320	1,403,000
Loan fees	(27,245)	(35,553)
Total	2,222,075	1,367,447

	2022 $'000	2021 $'000
Maturity of financial liabilities		
In one year or less, or on demand	-	-
In more than one year, but not more than two years	-	-
In more than two years, but not more than five years	2,222,075	1,367,447
Total	2,222,075	1,367,447

The Company's primary source of debt financing as at 31 December 2022 was through a Reserve Based Lending (RBL) facility of up to $3,500 million with a syndicate of banks. Under the RBL agreement the 'borrowing base' amount is determined by valuation of the Company's cash flows as assessed under the banks' technical and macro assumptions.

As at 31 December 2022, the lenders had a floating charge over all the assets of the Company and its principal operating subsidiaries and a charge over the shares in NEO Energy Upstream UK Limited, NEO Energy (CNS) Limited, NEO Energy (Exploration) Limited, NEO Energy (SNS) Limited, NEO Energy (Production) Limited, NEO Energy Enterprises Limited, NEO Energy (UKCS) Limited, NEO Energy Exploration UK Limited, NEO Energy Production UK Limited, NEO Energy (ZPL) Limited, NEO Energy Central North Sea Limited, NEO Energy Pathway Limited, NEO Energy (ZEL) Limited, NEO Energy (ZNI) Limited, NEO Energy Natural Resources Limited.
The loan as at 31 December 2022 attracts interest at compounded SOFR for each interest rate period (1, 3 or 6 months) plus a stepped margin rate which increases at set anniversaries: Initial agreement date of 21 March 2022 to 2nd anniversary (3.5% per annum), 2nd anniversary to 4th anniversary (3.75% per annum), 4th anniversary to maturity date (4% per annum). For the year ended 31 December 2022 the loan attracted a margin of 3.5%. The directors consider that the carrying amount of loan approximates to their fair value as at 31 December 2022.

NEO Energy Upstream UK Limited

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

The maximum facility amount amortises on a six-monthly basis starting on 1 April 2025, to final maturity on 31 March 2028. The maximum outstanding loan amounts are also subject to a borrowing base calculated by reference to estimated future cash flows from the assets which are re-calculated at semi-annual redeterminations, which may result in the company making facility repayments. As at 31 December 2022, the maximum available amount was $2,245 million, plus certain additional availability for letters of credit. The RBL includes a financial covenant to maintain net debt/EBITDAX cover ratio below 3.5x. The financial covenant is tested on a biannual basis. As at 31 December 2022, the company is fully compliant with the financial covenant.

19 Provisions

	Decommissioning provision $000	Dilapidation provisions $000	Total provisions $000
At 1 January 2022	**49,651**	**282**	**49,933**
Transfer of provision	(50,892)	-	(50,892)
Change in estimate	-	548	548
Unwinding of discount on decommissioning provisions (Note 7)	1,241	-	1,241
Total provisions at 31 December 2022	**-**	**830**	**830**

20 Other non-current liabilities

	2022	2021
	$'000	$'000
Onerous contract	**2,996**	3,846
Contingent consideration	**79,115**	339,266
Deferred consideration	**63**	57,963
	82,174	401,075

The Company recognises contingent consideration related to historic acquisitions. As at 31 December 2022 $322.3 million was considered payable within the next 12 months, and was therefore reclassed to current liabilities. The remaining balance of $79.1 million is expected to be paid in 2024.

These liabilities are discounted at a rate of 7.56% (2021: 3.84%) representing the company's weighted average cost of debt.

21 Financial risk management

This note explains the Company's exposure to financial risks and how these risks could affect the Company's future financial performance. Current year profit and loss information has been included where relevant to add further context.

The Company holds a number of commodity derivative agreements on an agency basis with subsidiary entities engaging in oil and gas trading. Through this back to back arrangement and by way of a management charge, amounts are charged to the subsidiaries based on their relative share of production for the year and forecasted production for future hedge periods

The Company's risk management is predominantly controlled by a treasury department under policies approved by the Board of Directors. The treasury department identifies, evaluates and hedges financial risks in close co-operation with the Company's operating units. The Board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

Current derivative assets and liabilities

	2022		2021	
	Assets	**Liabilities**	Assets	Liabilities
	$'000	**$'000**	$'000	$'000
Measured at fair value through profit and loss				
Commodity derivatives	-	-	-	-
Foreign exchange derivatives	-	-	2,464	-
	-	-	2,464	-
Measured at fair value through other comprehensive income				
Commodity derivatives - cash flow hedges	**385,632**	**17,186**	93,752	229,476
Foreign exchange derivatives - cash flow hedges	**1,100**	**42,200**	-	6,650
	386,732	**59,386**	93,752	236,126
Total	**386,732**	**59,386**	96,216	236,126

Non-current derivative assets and liabilities

	2022		2021	
	Assets	**Liabilities**	Assets	Liabilities
	$'000	**$'000**	$'000	$'000
Measured at fair value through other comprehensive income				
Commodity derivatives - cash flow hedges	-	-	3,953	9,968
Foreign exchange derivatives - cash flow hedges	-	-	-	6,964
Interest rate derivatives – cash flow hedges	45,900	-	-	-
	45,900	-	3,953	16,932
Total	**45,900**	-	3,953	16,932

As per the back-to-back hedging agreement between NEO Energy Upstream UK Limited and the other NEO subsidiaries, the year-end derivative financial asset/liability balance is allocated to the subsidiaries based on the forecasted future production and OPEX spend. As at 31 December 2022, the derivative financial liability due from group undertakings is $386.7 million (2021: $152.9 million asset).

The following amounts were initially recognised in profit and loss in relation to derivatives and then subsequently recharged to the company's subsidiaries by way of a back-to-back hedging agreements and based on the subsidiaries relative share of production for the year:

	2022	2021
	$'000	$'000
Realised hedging gains/(losses) through revenue	**37,707**	(113,248)
Net realised (loss)/gain through finance costs	**(33,543)**	3,352
Unrealised gains through finance costs	**-**	5,827
Premiums paid through finance costs	**(67,027)**	(26,240)
	(62,863)	(130,309)
Less: Allocated to subsidiary undertakings	**53,759**	134,515
	(9,104)	4,206
Unrealised gains/(losses) through other comprehensive income	**569,655**	(216,113)
Less: Allocated to subsidiary undertakings	**(515,587)**	216,070
	63,172	(4,163)

Cash flow hedge accounting

The Company uses a combination of fixed price physical sales contracts and cash settled fixed price commodity swaps and options to manage the price risk associated with underlying oil and gas revenues. Effective from 1 January 2021, all commodity contracts entered into during the year have been designated as cash flow hedges of highly probable forecast sales of oil and gas.
The Company's hedging reserves disclosed in the balance sheet relate to the following instruments

	Cash Flow Hedge Reserve	
	2022	**2021**
	$'000	**$'000**
Commodity options / swaps - oil	-	114
Forward foreign exchange contracts	-	(157)
Interest rate swaps	45,900	-
At 31 December 2022 (pre-tax)	**45,900**	**(43)**
Foreign exchange variance	8,125	-
Less: deferred tax	(7,842)	(16)
At 31 December 2022	**46,183**	**(59)**

Hedge effectiveness is determined at the inception of the hedge relationship and through prospective effectiveness assessments, to ensure that an economic relationship exists between the hedged item and the hedging instruments.

As at 31 December 2022, the fair value of net financial derivatives designated as cash flow hedges was $46.1 million (2021: $0.03 million) and net unrealised pre-tax gains of $54.1 million (2021: $0.04 million loss) was deferred in other comprehensive income in respect of the effective portion of the hedge relationships. Amounts deferred in other comprehensive income will be released to the income statement as the underlying hedged transactions occur. As at 31 December 2022, net deferred pre-tax gains of $0.1 million (2021: $0.03 million) are expected to be released to the income statement within one year. As per realised hedging costs noted above, the fair value of net financial commodity derivatives designated as cash flow hedges and the associated unrealised pre-tax losses deferred to in other comprehensive income, have been allocated to the Company's subsidiaries based on the subsidiaries forecasted future production for the remaining hedge periods.

22 Financial risk factor and risk management

Market risk

Market risk primarily comprises commodity price risk, foreign exchange risk and interest rate risk.

i) Commodity price risk

Commodity price risk arises in respect of the Company's revenues. To reduce the risk of oil and gas fluctuations, the Company actively looks to hedge oil and gas prices for a portion of its future estimated production.

The gross change in the fair value of these commodity price derivatives of $nil (2021: $17.2 million gain) has been fully allocated to the subsidiaries in line with the back-to-back hedging agreement. During the year $37.7m of realised hedging losses were recognised as part of Revenue in the financial statements (note 6), while hedging costs of $6.5m were recognised in Finance costs.

ii) Foreign exchange risk

Instruments used by the Company

The Company is exposed to foreign exchange risk in GBP. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the functional currency of the relevant Company entity, being USD. The risk is measured through a forecast of highly probable US dollar expenditures. The risk is hedged with the objective of minimising the volatility of the UK currency cost.

The resulting fair value of these contracts has been recognised in the statement of financial position as trade and other receivables of $nil (2021: $24,507). The maximum credit exposure of these derivative assets is the carrying value. The Company mitigates this risk by entering into transactions with long-standing, reputable counterparties and partners.
The gross change in the fair value of these price derivatives of $2.5 million loss (2021: loss $11.4 million) has been recognised and fully allocated to the subsidiaries in line with the back-to-back hedging agreement.

iii) Interest rate risk

The Company's interest rate risk arises from long-term borrowings issued at variable rates (see note 18) and exposing the Company to interest rate risk. As at 31 December 2022, the Company had an interest rate hedge in place for circa 47% (2021: nil) of the outstanding borrowing (RBL) exposure. Profit or loss is sensitive to higher/lower interest income from cash and cash equivalents as a result of changes in interest rates. The impact on the post-tax profit for the year of a 1% movement in interest rates would be an increase or decrease of $19.1 million (2021: $1.1 million).

i) Risk management

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks, as well as credit exposures to customers and co-venturers, including outstanding receivables and committed transactions. Credit risk is considered by the Board and senior management prior to entering into significant transactions with appropriate measures put in place as considered appropriate and monitored on an ongoing basis. None of the receivable balances are past their due date. The credit ratings for associated financial institutions range from A+ to AA-.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

ii) Impairment of financial assets

The Company evaluates the concentration of risk with respect to trade receivables and contract assets as low, as its customers are joint venture partners and there are no indications of change in risk.

The expected credit loss on the Company trade debtors balance as at 31 December 2022 was nil and therefore no adjustment has been applied.

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

The Company evaluates the concentration of risk with respect to intercompany receivables as low. Its customers are intercompany ventures and has considered the risk relating to the probability of default on loans that are repayable on demand. At 31 December 2022, the Company had intercompany receivable balances mainly due from NEO Energy Petroleum Limited ($1,373.8 million before applying credit loss), NEO Energy Production UK Limited ($287.7 million before applying the credit loss) and NEO Energy Natural Resources Limited ($255.5m before applying credit loss). In line with the requirements of IFRS 9, 'Financial Instruments' management calculated an expected credit loss of $1.4 million, which is carried in the 2022 financial statements of the Company. This is based on an assessment of the probability of default, exposure at default, loss given default and consideration of macroeconomic conditions.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

Financial assets by category

As at 31 December 2022	Amortised cost $'000	Fair value through profit and loss $'000	Fair value through OCI $'000	Total $'000
Assets as per balance sheet				
Trade and other receivables (excl. prepayments) (Note 15)	437,888	-	-	437,888
Derivative financial instruments	-	-	386,732	386,732
Cash and cash equivalents (Note 16)	470,047	-	-	470,047
Total	**907,935**	**-**	**386,732**	**1,294,667**

As at 31 December 2022	Less than 3 months $'000	3 to 12 months $'000	Total $'000
Trade and other receivables (excl. prepayments) (Note 15)	437,888	-	**437,888**
Derivative financial instruments	98,172	288,560	**386,732**
Cash and cash equivalents (Note 16)	470,047	-	**470,047**

As at 31 December 2021	Amortised cost $'000	Fair value through profit and loss $'000	Fair value through OCI $'000	Total $'000
Assets as per balance sheet				
Trade and other receivables (excl. prepayments) (Note 15)	240,407	-	-	240,407
Derivative financial instruments	-	2,464	93,752	96,216
Cash and cash equivalents (Note 16)	17,750	-	-	17,750
Total	**258,157**	**2,464**	**93,752**	**354,373**

As at 31 December 2021	Less than 3 months $'000	3 to 12 months $'000	Total $'000
Trade and other receivables (excl. prepayments) (Note 15)	240,407	-	**240,407**
Derivative financial instruments	24,054	72,162	**96,216**
Cash and cash equivalents (Note 16)	17,750	-	**17,750**

iii) Liquidity risk

Liquidity risk

Liquidity risk relates to the need to maintain sufficient cash and cash equivalent and undrawn borrowing facilities for the Company to continue to meet its cash and funding requirements as they fall due. The Company closely monitors its funding requirements in conjunction with its ultimate parent controlling undertaking, HitecVision VI, LP, HitecVision VII, LP and HitecVision North Sea Opportunity Fund, LP.

Financial liabilities by category

The tables below analyse the Company's financial liabilities into relevant maturity groupings based on their contractual maturities for: all non-derivative financial liabilities; and net and gross settled derivative financial instruments for which the contractual maturities are essential for an understanding of the timing of the cash flows.

As at 31 December 2022	Financial liabilities at amortised cost $'000	Fair value through profit and loss $'000	Fair value through OCI $'000	Total $'000
Liabilities as per balance sheet				
Trade payables (excl. accruals) (Note 17)	1,452,581	-	-	1,452,581
Bank loan (Note 18)	2,222,075	-	-	2,222,075
Lease liabilities (Note 13)	8,645	-	-	8,645
Derivative financial instruments (Note 21)	-	-	59,386	59,386
Total	**3,683,301**	-	**59,386**	**3,742,687**

Liabilities as per balance sheet	Less than 3 months $'000	3 to 12 months $'000	1 to 2 years $'000	2 to 5 years $'000	Total $'000
Trade payables (excl. accruals) (Note 17)	1,452,581	-	-	-	**1,452,581**
Derivative financial instruments	17,281	42,105	-	-	**59,386**
Lease liability (Note 13)	278	835	3,339	4,193	**8,645**
Bank loan (Note 18)	-	-	-	2,222,075	**2,222,075**

As at 31 December 2021	Financial liabilities at amortised cost $'000	Fair value through profit and loss $'000	Fair value through OCI $'000	Total $'000
Liabilities as per balance sheet				
Trade payables (excl. accruals) (Note 17)	770,027	-	-	770,027
Bank loan (Note 18)	1,367,447	-	-	1,367,447
Lease liabilities (Note 13)	10,635	-	-	10,635
Derivative financial instruments (Note 21)	-	-	253,058	253,058
Total	**2,148,109**	-	**253,058**	**2,401,167**

Liabilities as per balance sheet	Less than 3 months $'000	3 to 12 months $'000	1 to 2 years $'000	2 to 5 years $'000	Total $'000
Trade payables (excl. accruals) (Note 17)	770,027	-	-	-	**770,027**
Derivative financial instruments (Note 21)	59,031	177,095	16,932	-	**253,058**
Lease liability (Note 13)	-	905	3,482	6,248	**10,635**
Bank loan (Note 18)	-	-	-	1,367,447	**1,367,447**

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Capital risk management

The Company manages its capital to ensure that the Company and its subsidiaries will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balances. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as "total equity shareholders' funds" as shown in the Statement of Financial Position plus net debt. The gearing ratio is calculated as follows:

	2022	2021
	$'000	$'000
Total borrowings	**2,222,075**	1,367,447
Less: cash and short-term deposits	**(470,047)**	(17,749)
Net debt	**1,752,028**	1,349,698
Equity	**89,986**	(86,874)
Capital and net debt	**1,842,014**	1,262,824
Gearing ratio	**95%**	107%

23 Called up share capital

	2022	2021
Number	**'000**	'000
Authorised		
Deferred shares of £0.65 each	**22,000**	22,000
Ordinary shares of £0.35 each	**3,521**	35,000
Allotted, called up and fully paid		
Deferred shares of £0.65 each	-	-
Ordinary shares of £0.35 each	**100**	31,480

	2022	2021
Value	**$'000**	$'000
Authorised		
Deferred shares of £0.65 each	**19,292**	19,292
Ordinary shares of £0.35 each	**1,663**	16,526
Allotted, called up and fully paid		
Deferred shares of £0.65 each	-	-
Ordinary shares of £0.35 each	-	14,864

The movements in ordinary share capital during the year can be summarised as follows:

	Number '000	$'000
Allotted as at 1 January 2022	**31,480**	**14,864**
Capital reduction	(31,380)	(14,864)
Allotted as at 31 December 2022	**100**	**-**

On 8 June 2022, the share capital was reduced by cancelling 31,479,484 of the issued ordinary shares by way of written special resolution.

24 Share premium

	$'000
As at 1 January 2022	**118,869**
Capital reduction	(118,869)
As at 31 December 2022	**-**

25 Capital redemption reserve

	$'000
As at 31 December 2021 and 31 December 2022	**14,601**

The capital redemption reserve primarily arose on the redemption of 16,591,034 deferred shares of $0.65 each during the year ended 31 December 2007 when the capital value of the shares redeemed was transferred to the capital redemption reserve. The purpose of this reserve is to maintain the capital of the company.

26 Ultimate parent undertaking

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

As at 31 December 2022 and 31 December 2021, NEO Energy Group Limited is the largest 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 a non-controlling interests in the Group.

27 Post balance sheet events

The Company approved and paid a dividend of $100 million on 27 March 2023.

On 7 March 2023 the Company repaid $328.5 million of the borrowings drawn under its RBL facility.

On 27 March 2023 the Company received a dividend of $200.0 million from NEO Energy Petroleum Limited.

On 27 March 2023 the Company received a dividend of $100.0 million from NEO Energy Natural Resources Limited.

On 6 April 2023 the Company announced that it had entered into an agreement with Jersey Oil & Gas to acquire a 50% interest in the Greater Buchan Area (GBA) licenses. The agreement completed on 21 June 2023 and the interest of GBA was subsequently transferred to a fellow group company, NEO Energy (ZEX) Limited, on 1 August 2023.