

**NEO Energy (CNS) Limited**  
Formerly Verus Petroleum (CNS) Limited

## **Report and Financial Statements**

**For the year ended 31 December 2019**

Registered number: SC309081



COMPANIES HOUSE

**20 OCT 2020**

EDINBURGH MAILBOX

# **NEO Energy (CNS) Limited**

## **Report and Financial Statements For the year ended 31 December 2019**

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# **NEO Energy (CNS) Limited**

## **Directors and advisers**

### **Directors**

Paul Harris  
Andrew McIntosh  
Robert Adams

### **Secretary**

Burness Paull LLP  
Union Plaza  
1 Union Wynd  
Aberdeen  
AB10 1DQ

Andrew McIntosh  
The Silver Fin Building (8<sup>th</sup> Floor)  
455 Union Street  
Aberdeen  
AB11 6DB

### **Registered Office**

The Silver Fin Building (8<sup>th</sup> Floor)  
455 Union Street  
Aberdeen  
AB11 6DB

### **Independent Auditors**

PricewaterhouseCoopers LLP  
The Capitol, 431 Union Street  
Aberdeen  
AB11 6DA

# NEO Energy (CNS) Limited

## Strategic Report

The directors present their Strategic Report for the year ended 31 December 2019.

### Principal activities

The Company is involved in the exploration and production of offshore oil and gas prospects in the UK North Sea. The Company is continuously seeking opportunities to acquire production and development licenses in the UK North Sea. The Company is a 100% subsidiary of NEO Energy Upstream UK Limited, formerly Verus Petroleum UK Limited.

### Business review

The Company results for the year are shown in the Statement of Comprehensive Income on page 8. The profit for the financial year was \$2.4 million (2018: profit \$47.6 million) from the Boa asset. This profit was generated by revenues of \$8.4 million from oil and gas sales.

The cash balance at the end of 2019 was \$1.7 million (2018: \$0.1 million).

### Outlook for 2020

No significant change in the business of the Company is expected in the foreseeable future, subject to opportunities that may arise.

### Decision making and stakeholder engagement

Our success depends on our ability to engage effectively with our stakeholders. Our Board considers, both individually and collectively, that they have acted in a way they consider in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, in the decisions taken during the financial year ending 31 December 2019.

At each Board meeting the Directors review, with the Executive Leadership Team, the progress against strategic priorities and the changing shape of the business portfolio. This collaborative approach by the Board, together with the Board's approval of the Group strategy, helps it to promote the long-term success of NEO. Ultimately Board decisions are taken against the backdrop of what it considers to be in the best interest of the long-term financial success of the Group and its shareholders, employees, the environment, suppliers and customers.

### Performance

The Board regularly reviews and monitors the Group's safety, reliability and environmental performance, with the aim of making NEO safer for our workforce and that of our joint operations and minimising our environmental impact. It also focuses on maintaining financial discipline and delivering strong earnings, cash flow and shareholder value.

Safety of our operations is a corporate priority and the Board regularly monitors a range of safety performance metrics. There were no significant Operational HSE incidents in 2019.

### People

NEO's workforce is key to its success. Our people help us maintain our reputation for high standards of business conduct and are fundamental in delivering our strategy.

The past year was significant for the Group, with a significant change in the Board composition and appointment of a new CEO occurring as part of the wider Group restructure. As part of the succession planning for this role, the Board considered a number of factors including the values and leadership behaviours that this role requires.

Together the Board and the new CEO reviewed the new organisational structure including the appointment of the Executive Leadership Team and restructuring plans.

In preparation for the management of the Group's interest in the TOTAL asset interests, the Group has invested significantly in growing its talent pool through selective recruitment, from an average of 19 staff employed during 2019 to 42 staff by end of Q1 2020.

# NEO Energy (CNS) Limited

## *Governance*

The Board, led by the Chairman, believes that strong governance is essential to the success of the Company. All Board meeting agendas are structured around four distinct pillars – strategy, performance, people and governance.

The Board will continue to assess and monitor culture within the Group and will look to obtain useful insights through effective dialogue with our key stakeholders and taking feedback into account in the Board's decision-making process.

## *Risks and uncertainties*

The Company's major risks and uncertainties are managed at the NEO Energy Group Limited, formerly Verus Petroleum Holding Limited (the "Group") level.

The major risks and uncertainties managed by the Group are health, safety and environmental (HSE) issues associated with our operations, technical uncertainty associated with the presence and performance of reserves, commodity price uncertainty, and the cost and availability of materials and services.

The Group has in place an HSE management plan to ensure that all our operations are conducted to high industry standards and procedures. We also seek to ensure that all our contractors have the appropriate systems and procedures in place to ensure safe operations.

## *Operational*

Our operations are subject to inherent hazards and unforeseen interruptions, including equipment failures, drilling and production risks that may affect our ability to produce oil and gas.

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 and/or its contractors to ensure that any remedial actions that are identified are fully acted upon and implemented.

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. Certain risks cannot reasonably be insured against.

## *Corporate risk management*

The Group's risk management framework enables potential harmful or adverse consequences associated with all operations or activities to be identified assessed, managed and periodically reviewed. This framework provides a basis for managing all business related risks and highlights any material risks and their associated mitigation measures.

## *Geological*

The level, quality and production volumes from our oil and gas reserves could vary from the 2P reserves quantities reported if assumptions on which the reserves estimates have been based prove incorrect. 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, our estimated recoverable reserves are verified by independent qualified engineering firms.

## *Commodity price and currency risk*

The Group is exposed to fluctuations in oil and gas prices 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 Reserves-Based Lending Facilities. 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 take into account a range of commodity price scenarios.

## NEO Energy (CNS) Limited

The Group undertakes hedging activities from time to time using derivative transactions to mitigate its exposure to fluctuations in oil and gas prices, in accordance with a Board-approved Hedging Policy. Hedges 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.

### *Climate change legislation*

Climate change and fossil fuel extraction legislation may have a material impact on our industry. Environmental, Social and Governance key performance indicators, including carbon emission figures are monitored to deliver performance improvements and to minimise the impact from our operations.

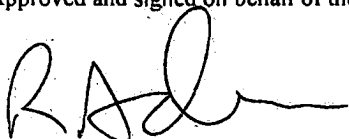
The Group also has in place comprehensive insurance policies to cover damage or losses which may occur during operations and to cover the costs of any major environmental incident, subject to deductibles and limits. Certain risks cannot reasonably be insured against.

### *COVID-19*

Operational restrictions placed on the Group's producing assets and the supply chain as a result of the spread of COVID-19 may have a material impact on the production and cashflow. The restrictions could lead to production shutdowns or delays in obtaining critical equipment for capital projects.

To minimise the risk, personnel on each of the Group's non-operated offshore facilities has been reduced to a minimum level required to maintain production and execute any critical maintenance worksopes. Measures have also been taken to minimise the risk of infected personnel travelling offshore and in the event of a suspected case arising on one of the installations, the ability to isolate and transport to shore any individuals. Since the start of the COVID-19 situation, no related incidents have occurred offshore and all producing assets are operating at minimum manning levels.

Approved and signed on behalf of the Board.



**Robert Adams**  
Director  
25 September 2020

# NEO Energy (CNS) Limited

## Directors' Report

The directors present their report and audited financial statements for the year ended 31 December 2019.

### Dividends

No dividends were paid or are proposed for the year (2018: \$nil).

### Name change

On 20 November 2019, the Company changed its name from Verus Petroleum (CNS) Limited to NEO Energy (CNS) Limited.

### Company funding and Going concern

The Company's funding is by way of an intercompany borrowing from NEO Energy Upstream UK Limited, formerly Verus Petroleum UK Limited.

In preparation of the financial statements, the Directors have made an assessment of the Company to continue as a going concern. The Company monitors and manages its liquidity risk by producing cash forecasts and sensitivities are run for different scenarios including, but not limited to, changes in commodity prices and production rates. Following the COVID-19 outbreak and the impact of this on commodity prices, a severe but plausible future commodity price downside scenario, of \$25/bbl oil price for the remainder of 2020 and \$30/bbl for 2021, was included in the going concern assessment.

NEO Energy Group Limited, the Company's intermediate parent company, has provided a letter of support confirming its intention to continue to provide support to the activities of the Company and to ensure adequate funds are available to allow the Company to pay its debts as they fall due, further details of which are set out in Note 2. The NEO Energy Group Limited directors have also received confirmation that the ultimate parent company intends to continue to provide financial support to the NEO Group for at least one year following the date of approval of these financial statements and have no reason to believe that material uncertainty exists that may cast doubt about the Group and the Company's ability to continue as a going concern.

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.

### 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).

### Directors

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

Andrew McIntosh	Appointed: 25 September 2019
Paul Harris	Appointed: 27 January 2020
Robert Adams	Appointed: 30 June 2020
Glenn Corrie	Appointed: 25 September 2019, Resigned: 30 June 2020
Peter Thomas	Appointed: 25 September 2019, Resigned: 24 April 2020
Peter Campbell	Resigned: 30 September 2019
Colin Christie	Resigned: 30 September 2019
Alan Curran	Resigned: 30 September 2019
John Baillie	Resigned: 31 March 2020

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

# NEO Energy (CNS) Limited

## Post Balance Sheet Events

The post year end impact of Covid-19 and subsequent fall in commodity price are detailed in Note 18 of the financial statements.

## Independent auditors and disclosure of information to auditors

Each of the persons who is a director at the date of approval of this report confirms that:

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

The independent auditors, PricewaterhouseCoopers LLP, were appointed in 2017 and have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual General Meeting.

## Statement of Directors' Responsibilities

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

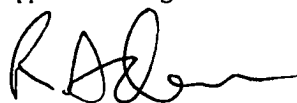
The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies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

## Directors' confirmations

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.

Approved and signed on behalf of the Board.



**Robert Adams**  
Director  
25 September 2020



# NEO Energy (CNS) Limited

## *Independent auditors' report to the members of NEO Energy (CNS) Limited*

### Report on the audit of the financial statements

#### Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 2019 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, comprising 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") (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 December 2019; the Statement of Comprehensive Income, 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

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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

#### 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 the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

# NEO Energy (CNS) Limited

## ***Independent auditors' report to the members of NEO Energy (CNS) Limited (continued)***

### *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 2019 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 set out on page 6, 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.

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](http://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.

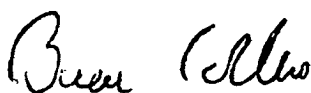
## **Other required reporting**

### **Companies Act 2006 exception reporting**

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

- we have not received 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

25 September 2020

# NEO Energy (CNS) Limited

## Statement of Comprehensive Income Year ended 31 December 2019

	Note	2019 \$'000	2018 \$'000
Revenue	5	8,368	14,450
Cost of Sales		(1,346)	(818)
<b>Gross Profit</b>		<b>7,022</b>	<b>13,632</b>
Administrative expenses		(1,028)	(617)
Foreign exchange gain	6	167	1
Depletion, depreciation and amortisation	6	(2,779)	(3,475)
Reversal of property, plant and equipment	6	-	446
<b>Operating profit</b>		<b>3,382</b>	<b>9,987</b>
Finance income	9	52	-
Intercompany write back	7	-	28,478
Finance costs	10	(996)	(586)
<b>Profit before taxation</b>		<b>2,438</b>	<b>37,879</b>
Tax	11	63	9,675
<b>Profit and total comprehensive income for the financial year</b>		<b>2,501</b>	<b>47,554</b>
<b>Attributable to:</b>			
<b>Owners of the parent</b>		<b>2,501</b>	<b>47,554</b>

# NEO Energy (CNS) Limited

## Statement of Changes in Equity Year ended 31 December 2019

	Share capital	Currency Translation Reserve	(Accumulated losses) / retained earnings	Total equity
	\$'000	\$'000	\$'000	\$'000
<b>Balance at 1 January 2018</b>	-	9,604	(50,977)	(41,373)
Profit for the year	-	-	47,554	47,554
Total comprehensive income for the year	-	-	47,554	47,554
<b>Balance at 31 December 2018</b>	-	9,604	(3,423)	6,181
Profit for the year	-	-	2,501	2,501
Total comprehensive income for the year	-	-	2,501	2,501
<b>Balance at 31 December 2019</b>	-	9,604	(922)	8,682

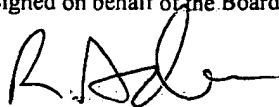
# NEO Energy (CNS) Limited

## Statement of Financial Position As at 31 December 2019

	Note	2019 \$'000	2018 \$'000
<b>Non-current assets</b>			
Property, plant and equipment	12	14,308	16,471
Deferred tax asset	11	9,738	9,675
		<b>24,046</b>	<b>26,146</b>
<b>Current assets</b>			
Trade and other receivables	13	542	5,140
Inventory		87	-
Cash and cash equivalents		1,698	149
		<b>2,327</b>	<b>5,289</b>
<b>Total assets</b>		<b>26,373</b>	<b>31,435</b>
<b>Current liabilities</b>			
Trade and other payables	14	(12,326)	(20,474)
<b>Net current liabilities</b>		<b>(9,999)</b>	<b>(15,185)</b>
<b>Total assets less current liabilities</b>		<b>14,047</b>	<b>10,961</b>
<b>Non-current liabilities</b>			
Provisions	15	(5,365)	(4,780)
<b>Total liabilities</b>		<b>(17,691)</b>	<b>(25,254)</b>
<b>Net Assets</b>		<b>8,682</b>	<b>6,181</b>
<b>Equity</b>			
Called up share capital	16	-	-
Currency translation reserve		9,604	9,604
Accumulated losses		(922)	(3,423)
<b>Total equity</b>		<b>8,682</b>	<b>6,181</b>

The financial statements were approved by the board of directors on 25 September 2020.

Signed on behalf of the Board of Directors.



**Robert Adams**  
Director

Registered no. SC309081

# NEO Energy (CNS) Limited

## Notes to the financial statements for the year ended 31 December 2019

### 1 General information

NEO Energy (CNS) Limited, formerly Verus Petroleum (CNS) 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.

### 2 Basis of preparation

These financial statements of the Company have been prepared in accordance with United Kingdom Accounting Standards - FRS 101 and the Companies Act 2006 ("the Act") as applicable to companies using FRS 101. The financial statements have been prepared on the historical cost basis, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

FRS 101 sets out a reduced disclosure framework for a "qualifying entity", as defined in the Standard, which addressed the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted International Financial Reporting Standards ("IFRSs").

The Company is a qualifying entity for the purposes of FRS 101. Note 17 gives details of the Company's ultimate parent and from where the consolidated financial statements prepared in accordance with IFRS may be obtained.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- IFRS 7, 'Financial Instruments: Disclosures'
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
  - (i) Paragraph 79(a)(iv) of IAS 1 'Presentation of financial statements';
  - (ii) Paragraph 73(e) of IAS 16 'Property, plant and equipment';
- The following paragraphs of IAS 1, 'Presentation of financial statements':
  - 10(d), (statement of cash flows);
  - 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);
- 16 (statement of compliance with all IFRS);
  - 38A (requirement for minimum of two primary statements);
  - 38B-D (additional comparative information);
  - 111 (cash flow statement information); and
  - 134-136 (capital management disclosures)
- IAS 7, 'Statement of cash flows'
- Paragraph 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);
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation)
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more wholly owned members of a group.
- 101p8(i) & Paragraphs 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).

### Going concern

The Company had net current liabilities at 31 December 2019 of \$10.0 million (2018: \$15.2 million). This balance largely reflects net amounts due to intercompany undertakings with no fixed repayment date of \$11.9 million (2018: \$17.2 million).

In preparation of the financial statements, the Directors have made an assessment of the Company to continue as a going concern. The Company monitors and manages its liquidity risk by producing cash forecasts and sensitivities are run for different scenarios including, but not limited to, changes in commodity prices and production rates. Following the COVID-19 outbreak and the impact of this on commodity prices, a severe but plausible future commodity price downside scenario, of \$25/bbl oil price for the remainder of 2020 and \$30/bbl for 2021, was included in the going concern assessment.

# NEO Energy (CNS) Limited

## Notes to the financial statements for the year ended 31 December 2019

The Company's intermediate parent company, NEO Energy Group Limited, formerly Verus Petroleum Holding Limited, has confirmed that it intends to finance the Company so as to enable it to meet its liabilities as they fall due and to carry on business without a significant curtailment of operations for a period of at least 12 months from the date of approval of these financial statements. The NEO Energy Group Limited directors have also received confirmation that the ultimate parent company intends to continue to provide financial support to the NEO Group for at least one year following the date of approval of these financial statements and have no reason to believe that material uncertainty exists that may cast doubt about the Group and the Company's ability to continue as a going concern.

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. The accounting policies have been consistently applied to all the years presented, unless otherwise stated.

#### Investments in Joint Operations, Joint Ventures and Associates

The Company is engaged in oil and gas exploration and development through unincorporated joint ventures. The Company accounts directly for its share of the results and net assets and liabilities of these joint ventures as joint operations. In addition, where the Company acts as Operator to the joint venture, the gross receivables and liabilities (including amounts due to or from non-operating partners) of the joint venture are included in the balance sheet.

#### Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling Interest (NCI) in the acquiree. For each business combination, the Company elects whether to measure NCI in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition related costs are expensed as incurred and included in administrative expenses.

When the Company acquires a business, it assesses the assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. Those acquired petroleum reserves and resources that can be reliably measured are recognised separately in the assessment of fair values on acquisition. Other potential reserves, resources and rights, for which fair values cannot be reliably measured, are not recognised separately, but instead are subsumed in goodwill.

If the business combination is achieved in stages, any previously held equity interest is measured at its acquisition date fair value, and any resulting gain or loss is recognised in the statement of profit or loss and other comprehensive income.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 9 Financial Instruments: Recognition and Measurement 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 IAS 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.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for NCI over the fair value of the identifiable net assets acquired and liabilities assumed. If the fair value of the identifiable net assets acquired is in excess of the aggregate consideration transferred (bargain purchase), before recognising a gain, the Company reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in the statement of profit or loss and other comprehensive income. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's CGUs that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Where goodwill forms part of a CGU and part of the operation in that unit is

# **NEO Energy (CNS) Limited**

## **Notes to the financial statements for the year ended 31 December 2019**

disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed of in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained.

### **Revenue recognition**

Revenue represents the sales value of the company's oil liftings and gas deliveries in the year, when title has passed 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.

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 market value and included within current assets and current liabilities respectively. Movements during an accounting year are adjusted through cost of sales such that gross profit is recognised on an entitlement basis.

### **Cost of sales**

Cost of sales includes royalties, transportation tariffs and field operating costs. These are recognised as incurred.

### **Taxation**

The tax expense represents the sum of the tax currently payable and deferred tax.

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally 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 liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, 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.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced 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 is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. 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**

These financial statements are presented United States Dollars ('the presentational currency') which is also the currency of the primary economic environment in which the Company operates ('the functional currency').

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



# NEO Energy (CNS) Limited

## Notes to the financial statements for the year ended 31 December 2019

### Property, plant & 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 intangible E&E assets as outlined above. All costs in the development phase, including direct costs or cost of own time are capitalised as tangible assets.

Development and production expenditure for the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of the development wells are capitalised as producing oil and gas properties and depreciated using the unit of production method by reference to the ratio of production in the year to the related proved and probable reserves (2P), taking into account estimated, where applicable, future development expenditures necessary to bring those reserves into production. Any changes in the reserves affecting unit-of-production calculations are reflected prospectively.

An impairment test is performed whenever events and circumstances arising during the development or production phase indicate that the carrying value of a development or production asset may exceed its recoverable amount. In order to review the recoverable amount in an impairment test, the assets are grouped, where appropriate, into cash-generating units (CGUs) and the carrying value of each unit is compared with its recoverable amount.

The recoverable amount of an asset is determined as the higher of its fair value less costs of disposal and its value in use, where the value in use is determined from estimated future net cash flows from production of commercial reserves. Standard valuation techniques are used applying discount rates appropriate to the specific characteristics of the operating entities concerned; discount rates are determined on a post-tax basis and applied to post-tax cash flows. The recoverable amounts calculated on the basis of these discount rates are the same as the amounts obtained by applying the pre-tax discount rates to cash flows estimated on a pre-tax basis, as required by IAS 36.

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.

### Decommissioning

A provision for decommissioning is recognised where the Company has a legal or constructive obligation for the removal of production facilities, plugging of wells and site restoration at the end of the productive life of a field. The amount recognised is the present value of estimated future expenditure determined in accordance with local conditions and requirements. A non-current asset of an amount equivalent to the provision is also created and depreciated on a unit of production basis.

Changes in estimates are recognised prospectively, with corresponding adjustments to the provision and the associated fixed asset.

The unwinding of the discount on the decommissioning provision (accretion) is included within finance costs.

### Leases

IFRS 16 Leases was issued in 2016 to replace IAS 17 Leases and is required to be adopted by 2019. Under the new standard all lease contracts, with limited exceptions, are recognised in financial statements by way of right-of-use assets and corresponding lease liabilities.

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 losses 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. Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

# NEO Energy (CNS) Limited

## Notes to the financial statements for the year ended 31 December 2019

### 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, formerly Verus Petroleum Holding 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 statement of comprehensive income.

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

All the Company's financial assets as at 31 December 2019 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.

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 statement of comprehensive income 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 statement of comprehensive income.

Fair value gains or losses for financial liabilities designated at fair value through the statement of comprehensive income 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 statement of comprehensive income.

The Company's financial liabilities include trade and other payables 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.

# NEO Energy (CNS) Limited

## Notes to the financial statements for the year ended 31 December 2019

The Group applies the simplified approach or the three-stage general approach to determine impairment of receivables depending on their respective nature, including intercompany 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 Group'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, such as crude oil prices, 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 statement of comprehensive income.

### *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 statement of comprehensive income.

#### **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 Group 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.

# NEO Energy (CNS) Limited

## Notes to the financial statements for the year ended 31 December 2019

### e) Derivatives

The Group uses derivative financial instruments such as forward exchange contracts to hedge its foreign exchange, risks as well as put options to hedge against its oil price risk. However, such contracts are not accounted for as designated hedges. 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. Any gains or losses arising from changes in the fair value of derivatives are recognised within finance income/ costs for the period.

### 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 Group 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.

If a market for a financial instrument is not active, the Group establishes fair value using valuation techniques. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, and discounted cash flow analysis. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments.

Inputs to valuation techniques reasonably represent market expectations and measure the risk-return factors inherent in the financial instrument. The Group 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 statement of comprehensive income on initial recognition of the instrument. In other cases, the difference is not recognised in the statement of comprehensive income 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

### 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

### *Critical estimates and judgements in applying the Company's accounting policies*

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 estimates and judgements that could result in material adjustments to the carrying amounts of assets and liabilities within the next financial year are summarised below:

### Reserves

Proved and probable entitlement reserves ("commercial reserves") are a key determinant in depreciation rates under the unit of production method and in assessing whether the carrying value of any of the Company's development and production assets have been impaired. Commercial reserves are determined using estimates of oil and gas in place, recovery factors and future oil and gas prices. The Company engages independent reservoir engineers in order to perform an independent assessment of reserves.

# NEO Energy (CNS) Limited

## Notes to the financial statements for the year ended 31 December 2019

Assets are tested for impairment using proven and probable reserves, along with future commodity price assumptions and an appropriate discount factor, in order to calculate the future cash flows generated from the Company's development and production assets. These cash flows are compared to the net book values carried by the Company to ascertain whether an impairment write down should be applied.

Production assets within Property, plant and equipment are depreciated on a unit of production basis at a rate calculated by reference to proved and probable reserves (2P) and incorporating the estimated future cost of developing and extracting those reserves.

### Decommissioning

Decommissioning costs are expected to be incurred between 2021 and 2037. The provision has been based on estimates of future costs based upon existing technology, current legislation requirements and discounted using a rate of 3% (2018: 3%). 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.

### Impairment

An impairment test is performed whenever events and circumstances arising during the development or production phase indicate that the carrying value of a development or production asset may exceed its recoverable amount. The aggregate carrying value is compared against the expected recoverable amount of the cash generating unit, generally by reference to the present value of the future net cash flows expected to be derived from the production of commercial reserves. The key judgements relate to the future production and cost profile, oil price, discount rate and inflation rate. The key assumptions are \$60 per barrel of oil in 2020, \$62 in 2021, \$65 in 2022 (2018: \$66), thereafter inflated by 2% per annum, 8% (2018: 8%) discount rate and 2% (2018: 2%) inflation rate.

Judgement was also used to determine the appropriate indicators of impairment, classification of reserves and likelihood of tax loss recoverability.

### Recoverability of deferred tax asset

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

1. Utilisation of available taxable losses: significant estimates are required in determining future phasing of the capital and operating programme, oil prices, production profile, and the resulting cash flows.
2. Management have assumed \$60 per barrel of oil in 2020, \$62 in 2021, \$65 in 2022 (2018: \$66) in estimating the utilisation of taxable losses.

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

The recoverability of this value is sensitive to the assumptions used and any change in those assumptions could impact the recoverability of the asset in the absence of future acquisitions. If Brent oil prices were to reduce by 50% for a sustained period, under a severe scenario, the deferred tax asset recoverable value would reduce by \$10 million.

## 5 Revenue

All revenue is principally attributable to one class of business, from exploration and production of oil and gas.

Sales revenue represents the sales value of the Company's oil liftings and gas deliveries in the year. Oil revenue is recognised when title of the crude has passed to the buyer by means of the bill of lading document. Typically, payment for the sale of the oil is received by the end of the month following the month in which the sale is recognised. Gas revenue is recognised when title has passed to the buyer, at the contractual delivery point.

# NEO Energy (CNS) Limited

## Notes to the financial statements for the year ended 31 December 2019

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.

In the opinion of the Directors, the operations of the Company comprise one single class of business 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.

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

Revenue	2019 \$'000	2018 \$'000
Oil sales	7,528	12,570
Gas sales	840	1,880
	<b>8,368</b>	<b>14,450</b>

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.

### 6 Operating profit

	2019 \$'000	2018 \$'000
<b>Operating profit is stated after (crediting) / charging:</b>		
Foreign exchange gain	(167)	(1)
Depletion, depreciation and amortisation costs	2,779	3,475
Reversal of property, plant and equipment	-	(446)
Audit of financial statements	18	10

### 7 Intercompany write back

In 2018, the Group performed a reassessment of intercompany balances across the Group taking into account recent acquisitions and performance of assets. As a result, some intercompany payable balances were formally forgiven through legal waivers, resulting in income of \$28.5 million in the year ended 31 December 2018.

### 8 Employee numbers and directors' remuneration

During the year the Company had no employees (2018: nil).

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

### 9 Finance income

	2019 \$'000	2018 \$'000
Bank interest	52	-

# NEO Energy (CNS) Limited

## Notes to the financial statements for the year ended 31 December 2019

### 10 Finance costs

	2019 \$'000	2018 \$'000
Bank interest	670	401
Mark to market loss on derivative financial instruments	132	-
Letter of credit fees	51	32
Accretion cost (Note 15)	143	153
	<b>996</b>	<b>586</b>

### 11 Tax

	2019 \$'000	2018 \$'000
<b>Deferred tax:</b>		
Origination and reversal of temporary differences	(195)	(9,675)
Prior year adjustments	131	-
<b>Total tax credit</b>	<b>(64)</b>	<b>(9,675)</b>

#### Factors affecting tax credit for year

The credit for the year can be reconciled to the profit per the income statement as follows:

	2019 \$'000	2018 \$'000
<b>Profit before taxation</b>	<b>2,438</b>	<b>37,879</b>
Tax on profit on ordinary activities at rate of 40% (2018: 40%)	975	15,152
Effects of:		
Expenses not deductible	67	-
Non-deductible or non-taxable items	(158)	(11,326)
Ring fence expenditure supplement	(1,053)	(957)
Adjustments in respect of prior years	131	-
Investment allowance	(4)	-
Effects of group relief/other reliefs	(21)	-
(Recognition) of deferred tax	-	(12,544)
<b>Tax credit for the year</b>	<b>(63)</b>	<b>(9,675)</b>

Deferred tax liability	Accelerated tax depreciation and decommissioning provision \$'000	Total \$'000
<b>At 1 January 2019</b>	<b>(4,702)</b>	<b>(4,702)</b>
(Charged) / credited to the income statement	1,125	1,125
<b>At 31 December 2019</b>	<b>(3,577)</b>	<b>(3,577)</b>

Deferred tax asset	Tax losses \$'000	Total \$'000
<b>At 1 January 2019</b>	<b>14,377</b>	<b>14,377</b>
(Charged) / credited to the income statement	(1,062)	(1,062)
<b>At 31 December 2019</b>	<b>13,315</b>	<b>13,315</b>

# NEO Energy (CNS) Limited

## Notes to the financial statements for the year ended 31 December 2019

	2019 \$'000	2018 \$'000
Deferred tax liability		
Accelerated capital allowances and decommissioning provision	(3,577)	(4,702)
	(3,577)	(4,702)
Deferred tax asset		
Tax losses carried forward	13,315	14,377
	13,315	14,377
Disclosed on the balance sheet:		
Deferred tax asset	13,315	14,377
Deferred tax liability	(3,577)	(4,702)
	9,738	9,675

### 12 Property, plant and equipment

	Development and production assets \$'000	Other plant and equipment £'000	Total £'000
<b>Cost</b>			
At 31 December 2018	33,384	3,733	37,117
Additions in the year	62	-	62
Change in estimate	554	-	554
Disposals	(17,683)	-	(17,683)
At 31 December 2019	16,317	3,733	20,050
<b>Accumulated depletion, depreciation and amortisation</b>			
At 31 December 2018	(16,913)	(3,733)	(20,646)
Charge for the year	(2,779)	-	(2,779)
Disposals	17,684	-	17,684
Reversal of impairment	(1)	-	(1)
At 31 December 2019	(2,009)	(3,733)	(5,742)
<b>Net book value</b>			
At 31 December 2019	14,308	-	14,308
At 31 December 2018	16,471	-	16,471

### Impairment testing of Oil and Gas Assets

In accordance with IAS 36 Impairment of Assets, oil and gas (Development and production) assets have been reviewed for impairment at the year end. In assessing whether oil and gas assets have been impaired, the carrying amount of the CGU at field level is compared with their recoverable amounts.

The recoverable amounts of the CGU and fields have been determined on a fair value less costs of disposal. Discounted cash flow models comprising asset-by-asset life of field cash flow projections are used for development and producing assets, applying generally accepted market assumptions to determine the recoverable amounts.

### Key assumptions used in calculations

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

- Oil prices
- Production volumes
- Currency exchange rates
- Discount rates, and
- Opex, capex and decommissioning costs



# NEO Energy (CNS) Limited

## Notes to the financial statements for the year ended 31 December 2019

The key assumptions used for impairment testing at 31 December 2019 are \$60 (2018: \$66) per barrel of oil in 2020, \$62 in 2021, \$65 in 2022, and thereafter inflated by 2% per annum, £0.42 per therm of gas in 2020 and 2021, £0.50 per therm in 2022, 8% (2018: 8%) discount rate and 2% (2018: 2%) inflation rate.

### *Sensitivity to changes in assumptions*

The Company's recoverable value of assets is highly 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 goodwill or oil and gas asset carrying values. However, if either of these were to reduce by 50% an impairment charge of \$2 million post-tax, would be required as at 31 December 2019. The above sensitivities have flexed revenues and tax cash flows, but operating costs and capital expenditures have been kept constant.

### 13 Trade and other receivables

	2019 \$'000	2018 \$'000
Trade debtors	341	1,840
Amounts due from intercompany undertakings	185	3,290
Underlift	9	-
VAT receivable	7	1
Prepayments and accrued income	-	9
	<b>542</b>	<b>5,140</b>

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

Trade debtors and other receivables are not overdue as the payment terms established with the customers have not been exceeded. The expected credit loss on the Company's trade debtors balance of \$0.3 million was almost zero and therefore no adjustment has been applied.

Amounts due from intercompany undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand. Management considered the expected credit loss on amounts due from intercompany undertakings at 31 December 2019, of \$0.2 million, in line with IFRS 9, 'Financial Instruments'. The expected credit loss calculated was almost zero and therefore no adjustment has been applied.

### 14 Trade and other payables

	2019 \$'000	2018 \$'000
Trade creditors	126	-
Amounts due to intercompany undertakings	12,081	20,450
Overlift	-	13
Accruals	119	11
	<b>12,326</b>	<b>20,474</b>

Amounts owed to intercompany undertakings are unsecured, have no fixed date of repayment and are repayable on demand. A share of group bank loan interest is charged as incurred by the parent company based on the asset acquisition funding received by the Company.

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

# NEO Energy (CNS) Limited

## Notes to the financial statements for the year ended 31 December 2019

### 15 Provisions

	Decommissioning provision
	\$000
<b>At 1 January 2019</b>	<b>4,780</b>
Movement in provision	554
Utilisation of provision	(112)
Accretion costs (Note 10)	143
<b>At 31 December 2019</b>	<b>5,365</b>

Decommissioning costs are expected to be incurred between 2021 and 2037. The provision has been based upon existing technology, current legislation requirements and discounted using a rate of 3% (2018: 3%). 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.

### 16 Called up share capital

	2019	2018
	\$'000	\$'000
<b>Authorised:</b>		
10,000 (2018: 10,000) ordinary shares of £1 each	13	13
<b>Called up, allotted and fully paid</b>		
1 (2018: 1) ordinary share of £1 each	-	-

### 17 Ultimate parent undertaking

As at 31 December 2019, the immediate parent company was NEO Energy Upstream UK Limited, formerly Verus Petroleum UK Limited.

As at 31 December 2019, NEO Energy Group Limited, formerly Verus Petroleum Holding Limited is the largest group 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 2019, the ultimate parent undertaking and controlling party is HitecVision VI, LP, a Private Equity Fund based in Guernsey.

### 18 Post balance sheet events

Subsequent to the year end, a challenging macroeconomic environment has arisen, the international outbreak of COVID-19 in early 2020 has affected business and economic activity around the world and there has been a sharp fall in oil price as a result.

Despite the recent sharp reduction in prevailing commodity prices, the Company is still expected to generate significant free cash flow in 2020 as a result of a solid production outlook, competitive cost base and strong commodity hedging positions.

The Company considers the emergence and spread of COVID-19 to be a non-adjusting post balance sheet event as there was no disruption to the market, customers, employees or supply chain prior to the year end. Given the inherent uncertainties of a pandemic, it is not practicable at this time to determine the full impact of COVID-19 on the Company or to provide a quantitative estimate of this impact.