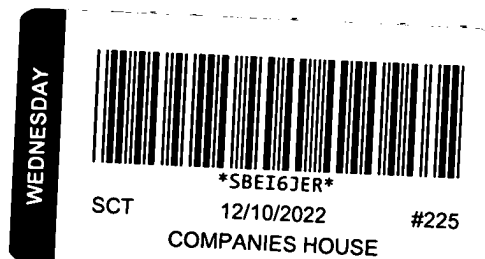


NEO Energy Group Limited

Report and Financial Statements

For the year ended 31 December 2021

Registered number: SC470677



NEO Energy Group Limited

Report and Financial Statements For the year ended 31 December 2021

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NEO Energy Group Limited

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NEO Energy Group Limited

Strategic Report

The directors present their Strategic report and the audited financial statements for the year ended 31 December 2021.

Principal Activities

The Company NEO Energy Group Limited holds investments in other Group companies (together, the “Group”). The Group’s and Company’s principal activities are the acquisition, exploration, development and production of offshore oil and gas reserves in the UK sector of the North Sea.

Business Review

The Group’s strategy is to become a leading producer in the UK Continental Shelf (“UKCS”). The Group made significant progress in 2021 through operational excellence and a combination of organic and inorganic growth, underpinned by a culture of continual improvement. The Group also benefited from the strengthening of the oil and gas prices during the period which positively impacted revenue and cash flow.

Production of the Group for the year ended 31 December 2021 averaged 32,359 boepd (2020: 14,957 boepd). This comprised 25,012 boepd from the Group’s existing assets and a contribution of 7,347 boepd from assets acquired during the year, which provided a material increase to the Group’s production base and contributed to achieving a production run rate of over 80,000 boepd during December 2021.

Acquisitions

On 12 July 2021, the Group acquired Zennor Petroleum Limited (Zennor), an independent oil and gas company with a portfolio of assets located in the Central and Northern North Sea. The primary equity interests acquired were as follows:

Area	Interest acquired
Greater Britannia area	
Britannia field	8.97%
Finlaggan field	100%
ETAP area (Mungo & Monan, Murlach)	12.65% - 20%
Cormorant East field	40%

On 8 December 2021, the Group acquired ExxonMobil CNNS Limited (“ExxonMobil CNNS”) which included a portfolio of non-operated oil and gas assets in the Central and Northern North Sea. The portfolio acquired consisted of 21 assets, including 14 fields and several infrastructure positions. The assets included several organic growth opportunities, including ongoing development projects such as the Penguins field, infill wells and life extension opportunities.

Under the terms of the transaction, ExxonMobil Corporation (“Exxon”) will retain a share of certain decommissioning liabilities to expenditure caps. See note 13.

The primary equity interests acquired were as follows:

Area	Interest acquired
Gannet cluster	50%
Elgin-Franklin fields	4.38%
Shearwater area (inc. Fram, Starling, Merganser & Scoter)	44%-72%
Penguins redevelopment	50%
Nelson	21.23%
ETAP area (Mirren & Madoes)	21-25%

Financial Review

The Group profit for the financial year was \$455.9 million (2020: loss \$42.7 million). The Company loss for the year was \$0.7 million (2020: profit \$0.3 million). The Group’s profit and Company’s loss have been transferred to reserves. No dividends were paid or proposed for the year (2020: nil). The following commentary relates to the Group as a whole, rather than the Company.

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Revenue

Revenue for the year ending 31 December 2021 totalled \$878.9 million (2020: \$220.9 million), comprising gross oil sales of \$606.6 million (2020: \$202.6 million), gross gas sales of \$375.5 million (2020: \$17.3 million), tariff and other income of \$4.1 million (2020: nil) and condensate sales of \$5.9 million (2020: \$1.0 million). Revenue included \$113.2 million of net realised hedging losses arising from commodity hedging arrangements entered into during 2021. Effective from 1 January 2021, the Group adopted hedge accounting under IFRS 9; therefore, the effects of realised oil and gas hedging are recognised as part of the revenue during the year.

The Group realised an average oil price for the year of \$77 per barrel (2020: \$41 per barrel). Including the effect of oil hedging contracts which were entered into and settled during 2021, the realised oil price was \$76 per barrel.

The average realised gas price during 2021 was 188 pence per therm (2020: 25 pence per therm) which is reduced to 133 pence per therm after the effect of gas hedging arrangements entered into and settled during 2021.

The increase in oil and gas revenue is due to the increase in oil and gas prices in 2021 and revenue contribution from assets acquired during the year.

Cost of sales

Total cost of sales was \$261.3 million for the year ending 31 December 2021 compared with \$164.6 million in 2020. The increase in cost of sales was driven by higher production operations costs, taking into account the newly acquired assets. Operating costs per barrel were \$27 in 2021 compared with \$24 per boe in 2020.

Depletion, depreciation and amortisation (DD&A)

The DD&A expense for the year ended 31 December 2021 was \$219.4 million (2020: \$89.7 million) resulting in an equivalent DD&A rate of \$19 per barrel of production (2020: \$16 per barrel).

Impairment Expense

Impairment expense for the year ended 31 December 2021 was nil (2020: \$29.8 million).

In 2020, impairment included \$28.8 million on the Western Isles field due to a reduction in reserves. This was partially offset by reversals of impairment of \$6.4 million in relation to changes in the decommissioning provision related to assets that had previously been fully depreciated.

Goodwill of \$7.4 million was also charged to impairment expense during 2020, following the acquisition of a further 13% interest in the Babbage field as the Group's total combined Babbage asset interest at 31 December 2020 did not support the capitalisation of further goodwill on this asset.

Administrative expenses

Administrative expenses for the year ended 31 December 2021 totalled \$25.3 million compared with \$28.1 million in 2020.

Finance costs

Finance costs incurred were \$87.1 million (2020: \$34.2 million) and included Reserve Based Loan (RBL) and other loan interest of \$23.5 million, interest costs associated with the unwinding of decommissioning provisions and contingent consideration discounting of \$22.2 million and the write off of previously capitalised loan re-financing costs of \$10.6 million, which were written off following modification of the Group's borrowing facility during the period. Also included within finance costs were net hedging costs of \$17.1 million in respect of commodity hedging and other costs of \$13.7 million relating to other loan fees and credit facilities.

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Capital costs (Capex)

Capex incurred in the year ended 31 December 2021 totalled \$92.2 million compared with \$56.6 million in 2020. The principal capital expenditure in the period related to the Golden Eagle field (\$21.7 million), which included execution of a four well infill drilling campaign and the Finlaggan field (\$23.9 million), where the Group successfully completed the field development project following the acquisition of the asset as part of the Zennor transaction. A further \$9.1 million was incurred in relation to the ongoing Penguins field redevelopment.

Free cashflow from operations

Net cashflow from operating activities was \$444.8 million for the year ended 31 December 2021 compared with \$143.0 million for the year ending 31 December 2020. The Group cash balance increased by \$218.4 million to \$292.0 million at the end of 2021 (2020: \$73.6 million).

Production (unaudited)

The table below presents the unaudited production volumes of the Group comparing 2021 production with 2020. Production in relation to assets acquired during the period has been included from the date of acquisition.

	Production Volume (net boe per day)	
	2021	2020
Golden Eagle	11,802	3,589
Quad 15	4,303	1,590
Britannia area	4,503	-
Western Isles	2,193	3,523
Babbage	1,992	2,019
Boa	1,786	1,343
Flyndre	1,313	882
Alba	1,182	1,300
Shearwater area	1,055	-
ETAP area	492	-
Gannet cluster	465	-
Elgin Franklin	316	-
Other	957	711
Total	32,359	14,957

In 2021, the production mix of the Group was 78% oil and 22% gas (2020: 84% oil and 16% gas). The increase in gas production reflects the impact of the acquisition made during the period. The proportion of gas production is expected to increase further in future periods when the contribution mix of the assets acquired in the period are included on a full year basis.

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Key Performance Indicators

The Group establishes key performance indicators (KPI's) each year to monitor performance against the annual operating plan as detailed in the table below. The evaluation of the KPI's for the year ended 2021 are discussed below and in other sections within the Strategic Report.

Key Performance Indicators	2021	2020
Production (net Boe per day)	32,359	14,957
Operating cost per barrel	\$27/bbl	\$24/bbl
Capital expenditure	\$92.2 million	\$57 million
2P Reserves (MMboe)	229	67
Operational HSEQ incidents	No significant incidents	No significant incidents

Abbreviations:

MMboe – Millions of barrels of oil equivalent

Boe – Barrels of oil equivalent

Operations Summary: Production and Development Assets

The Group's production and development operations include a diversified portfolio of interests across a number of major UKCS production hubs.

The primary interests are as follows:

Operated Production Assets

Quad 15 - NEO Operated (NEO 100 % working interest)

Located in blocks 15/20a, 15/20b and 15/20c of the Central North Sea. The Quad 15 area includes Balloch, Dumbarton and Lochranza fields which are tied back to the Global Producer III (GPIII) FPSO via subsea manifolds.

Production was impacted throughout 2021 largely related to issues with gas compression on the FPSO and extended shutdown for life extension activities.

Finlaggan – NEO Operated (NEO 100.00 % working interest)

The group has a 100% operated interest in the Finlaggan field, a two well subsea tie back to the Harbour operated Britannia Platform. The development of the field was completed during 2021 with the wells being brought on stream during Q4 2021.

Babbage (NEO 60.00 % working interest)

The Babbage field is a producing gas field located in block 48/2a of the UK southern sector of the North Sea. Gas is produced to the Babbage not permanently attended installation (NPAI) and exported via the West Sole export pipeline to the Dimlington terminal onshore.

Production and associated operating costs were steady throughout 2021.

Non-Operated Production Assets

Boa (NEO 11.35 % working interest)

The Boa field is a producing oil and gas field which straddles the UK Norwegian border in the North Sea, block 9/15b. The field is tied back to Alvhheim facilities in the Norwegian sector.

Production from the asset was steady throughout 2021 with exceptionally high uptimes seen from the asset.

Capex activities include the drilling of a new trilateral well which commenced drilling in November 2020 with first oil achieved in early Q2 2021. The well has performed to expectations since being brought online.

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Western Isles (NEO 23.08 % working interest)

Western Isles comprises several producing oil and gas fields within the UK sector of the North Sea, blocks 210/24a and 210/24e. Oil is produced to an owned new build floating production storage and offloading (FPSO) unit and exported by shuttle tanker, with gas being exported to the TAQA-operated Tern platform.

Production for the year was lower than expected due to operational and well performance issues. There were no significant or exceptional opex activities during the year.

Alba (NEO 17.00 % working interest)

The Alba field is a producing oil field located in block 16/26a of the UK sector of the North Sea. Production facilities comprise the Alba Northern Platform (ANP), subsea manifolds and a floating storage unit (FSU). Oil is processed on the ANP and exported to the FSU, where it is then exported by shuttle tanker. Fuel gas is imported from the Britannia field.

Production from the asset was lower than expected as a result of a deferral in the drilling campaign and an unsuccessful well intervention.

Golden Eagle Area Development (NEO 31.56 % working interest)

The Golden Eagle Area Development consists of the Golden Eagle, Solitaire and Peregrine oil fields. The development comprises a wellhead platform, and a bridge linked production, utility and quarters (PUQ) platform. The fields are located in blocks 14/26a and 20/1a of the Central North Sea.

Production from the asset was steady throughout 2021 with strong operating efficiency. Capex activities included the completion of a 4 well campaign in 2021.

ETAP Area; Mungo and Monan (NEO 12.65 % working interest), Madoes (25%), Mirren (21%)

During the period, the Group acquired non-operated interest in the Mungo & Monan (12.65%), Madoes (25%) and Mirren (21%) producing fields (operated by BP) as part of both the Zennor and ExxonMobil CNNS acquisitions. The fields form part of the Eastern Trough Area Project (ETAP) located in the Central North Sea.

In 2021, production from the ETAP hub was impacted by the unplanned extended outages of the third-party export systems at Unity, GAEL and the Forties Pipeline System (FPS). Hub efficiency outside of these periods has been strong.

Britannia Area; Britannia (8.97 %)

The Group owns an 8.97% non-operated interest in the Britannia producing field (operated by Harbour Energy) as a result of the Zennor acquisition. The asset is a substantial multi-well field located in the Central North Sea. The Britannia platform is linked to both SAGE and FPS and is a well-established hub for multiple satellite fields in the area across which platform operating costs are shared. These satellites, including Brodgar, Callanish, Alder, Enochdhu and Finlaggan, generate tariff revenue for the owners of the Britannia field.

Gannet Cluster – Shell Operated (NEO 50% working interest)

Following the ExxonMobil CNNS acquisition, the Group owns a 50% working interest in the asset. The asset comprises six fields Gannet A,B,C,D,F and G tied back through subsea locations to a fixed platform at the Gannet A location. Oil is exported to the NORPIPE system with gas being exported to the SEGAL/FGL system.

Shearwater Area – (NEO 44.5% - 72% working interest)

The Shearwater area interests were acquired with the ExxonMobil CNNS acquisition and consists of a number of fields mainly operated by Shell and tied back to the Shearwater platform as the main hub for the area. NEO has significant working interest in Fram (68%), Starling (72%). The Shearwater hub is actively pursuing new entrants including the Jackdaw field development which is currently still under regulatory consultation with OPRED.

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Elgin Franklin – (NEO 4.38% working interest)

Acquired as part of the ExxonMobil CNNS transaction, the group owns a 4.38% working interest in the asset. Elgin Franklin is a prolific producing HPHT field in the Central Graben Area of the UKCS. Elgin Franklin exports gas to Bacton via the SEAL pipeline and liquids to Ineos FPS.

Operated Development Assets

Affleck - (NEO 100% working interest)

Located in block 30/19a, Affleck was discovered in 1975 and was developed as a two well subsea tieback to Janice Floating Production Unit with first production in 2009. The field ceased production in May 2016 after producing a total of 4.3mmbbl of oil. Work is currently ongoing on the redevelopment project with the host selection complete now moving into the define phase of the two well subsea tieback to the Harbour operated Judy Platform via the Talbot manifold.

During the period the Group increased its equity interest from 66.7% to 100% following execution of an asset exchange agreement in which the Group's interest in the Flyndre asset was exchanged for the 33.3% interest in the Affleck.

Non-Operated development assets

Penguins - Shell Operated (NEO 50.00 % working interest)

Acquired as part of the ExxonMobil CNNS transaction, the Penguins field is located in blocks 211/13a, 211/1Fa, 211/14, 211/08, 211/13c and was first developed in 2002. Oil and gas was produced from four drill centres that were tied back to the Brent Charlie platform.

Following Shell's decision to start the process of decommissioning the Brent Field in 2017, including the Brent Charlie platform the Penguins partnership took the final investment decision to redevelop the Penguins using a floating production, storage and offloading (FPSO) vessel. The vessel is currently in construction phase in China and due to sail to the North Sea in 2022 with first oil anticipated during 2023.

As part of the redevelopment process a further eight wells will be drilled and tied back to the FPSO vessel. Oil will be transported via tanker to refineries, and gas will be transported via the Far North Liquids and Associated Gas System (FLAGS) pipeline to the St Fergus gas terminal in northeast Scotland

Operations Summary: Exploration and Evaluation Assets

The Group's portfolio includes several near field projects and exploration opportunities, acquired as part of the Zennor acquisition. The primary interests are as follows:

Leverett (NEO 100.00 % working interest)

The Group holds a 100% operated interest in Licence P2350, containing a significant share of the Leverett discovery in block 21/03d. Part of this discovery extends into the acreage held by the adjacent Brodgar field joint venture. Leverett represents a potential future tie-back development through the existing infrastructure in the Britannia hub area. It is an important part of the wider Greater Britannia Area plan which has aligned joint venture partners and the support of the Oil and Gas Authority (OGA).

In March 2021 the Group received confirmation from the OGA that Phase B of the licence terms had been extended by 12 months to 30 September 2022.

Greenwell (NEO 100.00 % working interest)

Licence P2350 also contains a majority of the Greenwell Direct Hydrocarbon Indicator (DHI) in block 15/29c, which the group interprets to be an extension of the producing Callanish field. Callanish was developed as a subsea tie-back to the Britannia facilities and exhibits the same DHI as that observed across Greenwell.

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Christian/Bligh (NEO 50.00 % working interest)

The Group owns a 50% operated interest in Licence P2533, containing the Christian and Bligh discoveries in block 21/20b, which represents either a potential subsea tie-back development to nearby infrastructure or in an upside case could potentially warrant a stand-alone development. Studies are underway to complete the technical work required to justify an appraisal well in 2023.

Teal West (NEO 30.00 % working interest)

The Group owns a 30% non-operated interest in Licence P2535, containing the Teal West discovery in block 21/24d, which represents a potential subsea tie-back development to the Anasuria FPSO sited over the Teal oil field. Design, planning and engineering studies are underway with the joint venture partners who are currently progressing the project towards a potential investment decision in 2022 with first oil targeted for the middle of 2024.

Outlook for 2022

The Group expects to further progress its strategy of becoming a leading producer in the UKCS.

In November 2021, the Group announced it had agreed to acquire 100% of the share capital of JX Nippon Exploration and Production (U.K.) Limited ("JX UK"). Consideration is based on an enterprise value of \$1.655 billion subject to various other adjustments.

JX UK's primary licence interests are an 18.01% interest in the Culzean field and a 20.00% interest in the Mariner field.

The Group closed the acquisition on 29 March 2022.

Decision making and stakeholder engagement

The Group's success depends on the ability to engage effectively with stakeholders. The Group's Board considers, 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 2021.

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 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.

Performance

The Board's goal is to protect its people, the public, the Group's assets, and the environment in which they work and live, therefore maintaining its reputation. This commitment is in the best interests of the employees and all associated stakeholders. It also focuses on maintaining financial discipline and delivering strong earnings, cash flow and shareholder value

The Board regularly monitors a range of safety performance metrics. There were no significant environmental or safety HSE incidents in 2021.

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.

2021 was another significant year for the Group in terms of growth and saw the integration of colleagues from both the acquisition of ExxonMobil CNNS and Zennor. Along with organic growth of around 50 employees, NEO has greatly enhanced its core skills and capabilities and is well positioned for the future. The Board and the CEO have continued to support the development of our people and culture, including the deployment of employee engagement, performance and development programmes to support the growth of capability, ensure optimised performance and enhance our colleague experience.

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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. The Group's policy commits to ensure no modern slavery or human trafficking in any part of our business, including our supply chain, and the company percentage of women employed in the workplace is above the industry average.

Average headcount in 2021 was 158 compared to an average headcount in 2020 of 73.

Governance

The Board, led by the Chairman, believes that strong governance is essential to the success of the Group and is responsible for NEO's overarching environmental, social and governance (ESG) strategy. The Board is made up of individuals with diverse skills, industry relevant experience and knowledge, and 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, with the Chair of each committee formally reporting on proceedings:

- **Technical & Commercial Assurance Committee (TCAC)** evaluates assets and potential investments for strategic, financial, operational, and reputational impact. ESG-related aspects, including climate-related impacts, regulatory requirements and the Emissions Trading Schemes (EU ETS / UK ETS) are regularly included in TCAC's reviews.
- **Audit & Risk Committee (ARC)** Material business risks and opportunities identified by the Group, including those relating to climate change, are presented and discussed with the ARC quarterly. The responsibilities of the Audit and Risk committee includes reviewing the financial statements of the Company and Group before they are presented to the Board for approval. The Committee also reviews the quality and adequacy of the Company's systems for internal control and financial reporting process.
- **Remuneration Committee** reviews salaries, compensation, and bonus structures. The bonus structure is based on individual and company performance. Considerations for the company performance include cash flow, production, and health and safety. Climate change KPIs are also being considered in remuneration evaluations.
- **ESG subcommittee** is entirely focused on ESG to define behaviours that shape actions of leadership and teams to attain to related goals. The Group meets when required to discuss issues related to ESG and assess progress achieved.

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

In December 2021, the Group finalised its ESG strategy further cementing the Group's commitment to strong governance. The strategy aims to maintain the highest standard of ethics, integrity and transparency at all levels. In alignment with this, the Group adheres to an Anti-Bribery policy and Code of Conduct which is based on leading international standards for responsible business conduct, including the UN Global Compact and the UN Guiding Principles on Business and Human Rights.

Environment

As part of its ESG strategy, the Group recognises the importance of partnerships with stakeholders including employees, contractors, regulators, JV partners, industry bodies and societies, in order to achieve goals. This is especially important for achieving NEO's Low Carbon Transition Plan of carbon intensity reduction by 50% by 2030 and net zero by 2050, which can only be reached through collaboration on alternative power solutions, technology development and full or partial electrification.

The Group's Low Carbon Transition Plan was released in March 2021 recognising the importance and challenges of climate change and the role that the oil and gas sector needs to play to mitigate global temperature rise. NEO is aligned with the UK Oil & Gas Authority plan for Maximising Economic Recovery (MER) and reaching Net Zero.

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The Group's approach centres on increasing the longevity of the assets by conducting highly efficient and cost-effective extractive practices, improving operational efficiency, actioning carbon abatement projects and taking a full lifecycle approach. The Group's governance culture encourages a proactive approach to deliver continuous improvement.

Risk management

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 Company'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 company'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 Company is willing to take in pursuit of its strategic objectives.

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 Executive Leadership Team (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 company
- 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.

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 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.

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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 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).

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 team(s) 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.

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 group, supporting continued access to capital should it be required. Management oversight of asset performance and robust internal control processes reduce likelihood and impact of cost overruns and production shortfalls.

External Risks

Commodity price and currency risk

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 Reserve Based Lending facilities.

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 has a hedging programme to mitigate its exposure to fluctuations in oil and gas prices and foreign exchange rates, in accordance with a Board-approved Hedging Policy and also to adhere to minimum hedging

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levels required by Reserve Based Lending facilities. 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.

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'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

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,
- 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.

Mitigations: Climate-related risks and associated mitigation strategies and actions are assessed at Board and Executive Leadership team levels. Environmental, Social and Governance key performance indicators, including carbon emission figures are monitored to deliver performance improvements and to minimise the impact from the Group's operations. A Board sub-committee for ESG has been established to support the board on ESG related matters. Response plans are in place for NEO's assets to mitigate the impact of extreme weather events.

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 and secondly to be Net Zero by 2050. NEO will achieve this by investing in technology and systems, such as full or partial electrification, and collaborating with partners and industry associations to explore carbon abatement opportunities.

COVID-19 pandemic

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

Mitigations: To minimise the risk, personnel on the Group's offshore facilities have been reduced and the stewarding/cleaning regimes increased, social distancing measures are in place and Oil & Gas UK (OGUK) guidance is being followed. Measures have also been taken to minimise the risk of infected personnel travelling offshore and in the event of a suspected case arising, the ability to isolate and transport to shore any individuals. The approach for staff returning to the offices during 2021 has remained in line with English and Scottish Government requirements.

Regulatory and Fiscal Change

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

Mitigations: NEO Energy participates in industry associations and bodies, such as Oil & Gas UK (OGUK), UK Oil Industry Taxation Committee (UKOIT) 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 Energy Group Limited

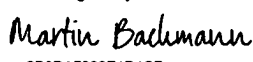
Oil and Gas Reserves

Net attributable MMboe*	2P Reserves
Balance as at 01/01/21	66.9
Production	(32.4)
Acquisition	212.0
Disposals	(3.7)
Revision of previous estimates	(13.6)
Balance as at 31/12/21	229.2

*MMboe = Millions of barrels of oil equivalent

The table above represents the Group's estimate of its proven and probable ("2P") reserves, using the definitions of reserve categories of the Society of Petroleum Engineers (SPE) and reviewed and jointly sponsored by the World Petroleum Council (WPC), the American Association of Petroleum Geologists (AAPG) and the Society of Petroleum Evaluation Engineers (SPEE).

Approved by the Board and signed on its behalf:

DocuSigned by:

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Martin Bachmann
 Director and Chairman

31 March 2022

NEO Energy Group Limited

Directors' Report

The directors present their report and audited consolidated financial statements for the year ended 31 December 2021.

Dividends

The Group profit for the year was \$455.9 million (2020: loss of \$42.7 million). The Company loss for the year was \$0.7 million (2020: profit of \$0.3 million). No dividends were paid or are proposed for the year (2020: nil)

Group 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 3, including the basis of the Director's assessment of the Group and the Company's ability to continue as a going concern.

Streamlined Energy and Carbon Reporting

NEO has prepared a streamlined energy and carbon report covering emissions categorised as Scope 1 (Direct GHG Emissions) and Scope 2 (Electricity Indirect GHG Emissions) as required under environmental reporting guidelines for large unquoted companies.

NEO is reporting on an Equity Share approach, as defined in the GHG Protocol. Equity share reflects the economic interest and NEO's emissions are based on information provided from the operator of each Joint Venture.

Emissions classed as Scope 1, direct, include flaring, venting, emissions from the use of fuel gas and diesel on the NEO and Joint Venture UKCS offshore assets. The increase in direct GHG emissions from 2020 to 2021 is related to strategic acquisitions of assets and production in 2021. However, carbon intensity has decreased.

Emissions reported as Scope 2, purchased electricity for own use are from the leased onshore office facilities in the UK and have increased due to return to work.

Key emissions and carbon intensity figures are included below.

	2021	2020
Direct GHG emissions (GHG Protocol Corporate Standard Scope 1, in tonnes of CO ₂)*	322,728	158,294
Energy indirect GHG emissions (GHG PCS Scope 2, in tonnes of CO ₂)	50	17
Carbon intensity - Scope 1 & 2 (kteCO ₂ /mmboe)	25	30
Scope 1 energy consumption in MWh	1,610,837	797,455
Scope 2 energy consumption in MWh	156	74
Transport, helicopter, related emissions for direct operated assets (in tonnes of CO ₂)	298	389

* Scope 1 emissions figures provided for NEO are calculated using the Equity Share approach.

Due to the shape of the NEO portfolio, the information for the assets has been obtained through the Joint Venture partnership arrangements and NEO has requested reports such as ESOS (Energy Saving and Opportunities Scheme). This is in addition to review of the emissions data which is returned for the NEO reporting process.

The Group is continuing to execute the Environmental, Social and Governance (ESG) roadmap and strategy. As part of this, the operated assets are continually reviewed to identify the opportunities for operational efficiencies. On Babbage, a power upgrade project and operational improvements have been implemented which reduces diesel usage and vent gas respectively. A low-pressure gas compressor was re-installed on GPIII to reduce the flaring rate and an onsite energy survey is being carried out in 2022 to identify other carbon abatement opportunities. Data is being collated on the non-operated assets to ensure NEO can support and influence relevant carbon abatement projects.

In line with regulation and good business practice, NEO has also delivered a Task Force on Climate-related Financial Disclosures (TCFD) report.

NEO Energy Group Limited

Financial Risk Management

The Group's operations expose it to financial risks, including the effects of changes in commodity prices, foreign exchange rates and interest rates. The Group has a risk management strategy in place which includes regular monitoring of financial risk exposure and undertaking hedging activities when appropriate (see Strategic Report and note 23).

Directors

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

Martin Bachmann
John Knight
David Gair
Einar Gjelsvik
Fiona Hill
Grethe Moen
Timothy Dodson (Appointed: 23 February 2022)
Nicholas Hooke (Resigned: 23 February 2022)

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

Post Balance Sheet Events

On the 29 March 2022, NEO acquired a 100% shareholding in JX Nippon Exploration and Production (U.K.) Limited from JX Nippon Oil & Gas Exploration Corporation via its wholly owned subsidiary NEO Energy Upstream UK Ltd. The consideration was based on an enterprise value of \$1.655 billion, subject to certain interim period and working capital adjustments.

The Group has considered its supply chain and operational activities in light of the Russia/Ukraine war and do not believe that there will be any significant impact on the business.

NEO Energy Group Limited

Statement of Directors' responsibilities

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 group financial statements in accordance with UK-adopted international accounting standards and the company 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 group and company and of the profit or loss of the group 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 UK-adopted international accounting standards have been followed for the group financial statements and United Kingdom Accounting Standards, comprising FRS 101 have been followed for the company financial statements, 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 group and company will continue in business.

The directors are responsible for safeguarding the assets of the group and 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 Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and 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 Group's and 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 Group's and Company's auditors are aware of that information.

Signed on behalf of the Board:

DocuSigned by:

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Martin Bachmann
Director and Chairman

31 March 2022

Independent auditors' report to the members of NEO Energy Group Limited

Report on the audit of the financial statements

Opinion

In our opinion:

- NEO Energy Group Limited's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2021 and of the group's profit and the group's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the company financial statements 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
- the financial statements 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 Consolidated and Company Statements of Financial Position as at 31 December 2021; the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statements of Changes in Equity and the Consolidated Statement of Cash Flow 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 group 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 group's and 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 group's and 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.

NEO Energy Group Limited

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 2021 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 group and company and their 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, 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 group's and 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 group or 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.

NEO Energy Group Limited

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to UK tax legislation and 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. 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 the posting of inappropriate journals entries to increase revenue or profitability and potential management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Enquiries made of the Board of Directors, certain key management personnel and in-house legal team around known or suspected instances of non-compliance with laws and regulations, claims and litigation, and instances of fraud;
- Enquiries made of the tax team in relation to any actual or potential disagreements with the tax authorities;
- 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.

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 company 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
31 March 2022

NEO Energy Group Limited

Consolidated Income Statement For the year ended 31 December 2021

	Note	2021 \$ 000	2020 \$ 000
Revenue	5	878,942	220,897
Cost of sales		(261,325)	(164,595)
Gross profit		617,617	56,302
Other operating gain	6	-	45,283
Depletion, depreciation and amortisation		(219,372)	(89,694)
Impairment expense		-	(29,835)
Administrative expenses		(25,261)	(28,137)
Foreign exchange gain / (loss)		1,751	(3,408)
Excess of fair value over costs of acquisition	13	331,193	-
Gain on disposal of assets		7,367	4,208
Fair value changes in contingent consideration	18,21	(63,098)	(5,459)
Other expenses		(23,851)	(3,992)
Operating profit / (loss)	7	626,346	(54,732)
Finance income	9	1,255	1,575
Finance costs	10	(87,090)	(34,155)
Profit / (loss) before income tax		540,511	(87,312)
Income tax (expense) / credit	11	(84,604)	44,601
Profit / (loss) for the year after income tax		455,907	(42,711)

Consolidated Statement of Comprehensive Income For the year ended 31 December 2021

		2021 \$'000	2020 \$'000
Profit / (loss) for the year after tax		455,907	(42,711)
Items that may be classified to income statement:			
Fair value movement on cash flow hedges	22	(216,113)	-
Tax on cash flow hedges	11	89,655	-
Foreign currency translation differences	27	(17,981)	-
Total other comprehensive expense for the financial year, net of tax		(144,439)	-
Total comprehensive income / (expense) for the year		311,468	(42,711)
Attributable to:			
Owners of the parent		311,468	(42,711)

The notes on pages 26 to 72 form an integral part of these financial statements.

NEO Energy Group Limited

Consolidated Statement of Financial Position As at 31 December 2021

	Note	2021 \$ 000	2020 \$ 000
Non-current assets			
Intangible assets	14	147,552	147,552
Property, plant & equipment	15	4,493,957	827,350
Deferred tax assets	11	-	209,176
Derivative assets	22	3,953	10,249
		4,645,462	1,194,327
Current assets			
Trade and other receivables	16	533,516	85,927
Inventory		29,351	14,812
Cash and cash equivalents	17	292,028	73,601
		854,895	174,340
Total assets		5,500,357	1,368,667
Current liabilities			
Trade and other payables	18	(822,018)	(136,100)
Loans and other borrowings	19	-	(74,823)
Provisions	20	(43,586)	(4,770)
		(865,604)	(215,693)
Net current liabilities		(10,709)	(41,353)
Total assets less current liabilities		4,634,753	1,152,974
Non-current liabilities			
Deferred tax liabilities	11	(413,946)	-
Lease liabilities	15	(10,365)	(1,798)
Loans and other borrowings	19	(1,367,447)	(230,202)
Provisions	20	(1,480,082)	(563,302)
Other non-current liabilities	21	(436,075)	(36,667)
Derivative liabilities	22	(16,932)	-
		(3,724,847)	(831,969)
Total liabilities		(4,590,451)	(1,047,662)
Net Assets		909,906	321,005
Equity			
Called up share capital	24	66	50
Share premium	25	547,920	270,503
Capital reserve	26	(40,024)	(40,024)
Cash flow hedge reserves	22	(126,458)	-
Currency translation reserves	27	(18,887)	(906)
Retained earnings	28	547,289	91,382
Total equity		909,906	321,005

These financial statements were approved and authorised for issue by the Board on 31 March 2022 and are signed on its behalf by:

DocuSigned by:

 Martin Bachmann
 Director and Chairman

The notes on pages 26 to 72 form an integral part of these financial statements.

Registered number: SC470677

NEO Energy Group Limited

Company Statement of Financial Position As at 31 December 2021

	Note	2021 \$'000	2020 \$'000
Non-current assets			
Investment	12	50,222	50,222
		50,222	50,222
Current assets			
Trade and other receivables	16	327,785	220,070
Cash and cash equivalents	17	170,409	2,371
		498,194	222,441
Total assets		548,416	272,663
Current liabilities			
Trade and other payables	18	(3,181)	(3,571)
Provision		(5,033)	(333)
Net current assets		489,980	218,537
Total assets less current liabilities		540,202	268,759
Non-current liabilities			
Provisions	20	(1,291)	(6,573)
Total liabilities		(9,505)	(10,477)
Net Assets		538,911	262,186
Equity			
Called up share capital	24	66	50
Share premium	25	547,920	270,503
Capital reorganisation	26	1,028	1,028
Currency translation reserve	27	(18,839)	(18,839)
Retained earnings	28	8,736	9,444
Total equity		538,911	262,186

As a consolidated income statement is published in these financial statements, a separate income statement for the Company is not presented within these financial statements as permitted by Section 408 of the Companies Act 2006. The Company reported a loss for the year of \$0.7 million (2020: profit of \$0.3 million).

These financial statements were approved and authorised for issue by the Board on 31 March 2022 and are signed on its behalf by:

DocuSigned by:

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Martin Bachmann
 Director and Chairman

The notes on pages 26 to 72 form an integral part of these financial statements.

NEO Energy Group Limited

Consolidated Statement of Changes in Equity For the year ended 31 December 2021

	Share capital (Note 24) \$'000	Share premium (Note 25) \$'000	Capital reserve (Note 26) \$'000	Cash flow hedge reserve \$'000	Currency translation reserve (Note 27) \$'000	Retained earnings / (deficit) (Note 28) \$'000	Total \$'000
Balance at 1 January 2020	41	174,024	(40,024)	-	(906)	134,093	267,228
Comprehensive expense							
Loss for the year	-	-	-	-	-	(42,711)	(42,711)
Total comprehensive expense for the year	-	-	-	-	-	(42,711)	(42,711)
Transactions with owners							
Issue of share capital	9	96,479	-	-	-	-	96,488
Balance at 31 December 2020	50	270,503	(40,024)	-	(906)	91,382	321,005
Comprehensive income / (expense)							
Profit for the year	-	-	-	-	-	455,907	455,907
Other comprehensive expense	-	-	-	(126,458)	(17,981)	-	(144,439)
Total comprehensive (expense) / income for the year	-	-	-	(126,458)	(17,981)	455,907	311,468
Transactions with owners							
Issue of share capital	16	277,417	-	-	-	-	277,433
Balance at 31 December 2021	66	547,920	(40,024)	(126,458)	(18,887)	547,289	909,906

The notes on pages 26 to 72 form an integral part of these financial statements.

NEO Energy Group Limited

Company Statement of Changes in Equity For the year ended 31 December 2021

	Share capital (Note 24) \$'000	Share premium (Note 25) \$'000	Capital reserve (Note 26) \$'000	Currency Translation Reserve (Note 27) \$'000	Retained earnings / (deficit) (Note 28) \$'000	Total equity \$'000
Balance at 1 January 2020	41	174,024	1,028	(18,839)	9,128	165,382
Comprehensive income						
Profit for the year	-	-	-	-	316	316
Total comprehensive income for the year	-	-	-	-	316	316
Transactions with owners						
Issue of share capital	9	96,479	-	-	-	96,488
Balance at 31 December 2020	50	270,503	1,028	(18,839)	9,444	262,186
Comprehensive expense						
Loss for the year	-	-	-	-	(708)	(708)
Total comprehensive expense for the year	-	-	-	-	(708)	(708)
Transactions with owners						
Issue of share capital	16	277,417	-	-	-	277,433
Balance at 31 December 2021	66	547,920	1,028	(18,839)	8,736	538,911

The notes on pages 26 to 72 form an integral part of these financial statements.

NEO Energy Group Limited

Consolidated Statement of Cash Flow For the year ended 31 December 2021

	Note	2021 \$'000	2020 \$'000
Operating activities	29	499,965	169,022
Tax paid	11	-	(8)
Interest received	9	1,255	1,575
Interest and facility fees paid		(56,391)	(27,577)
Net cash generated from operating activities		444,829	143,012
Investing activities			
Proceeds from investment sale		3,000	2,171
Business combination consideration paid; net of cash acquired	13	(1,044,120)	(291,789)
Proceeds from ultimate parent company		-	20,246
Amount due from parent company	16	-	(49)
Purchases of property, plant and equipment	15	(96,115)	(54,145)
Net cash used in investing activities		(1,137,235)	(323,566)
Financing activities			
Issue of share capital	24	86,232	63,376
Letter of credit fees paid	10	(4,523)	(1,849)
Repayment of loan facility	19	(325,123)	(291,150)
Drawdown of loan facility	19	1,154,697	350,360
Lease liability payments		(435)	(758)
Net cash generated from financing activities		910,848	119,979
Net increase / (decrease) in cash and cash equivalents		218,442	(60,575)
Net foreign exchange difference		(15)	-
Cash and cash equivalents at beginning of year		73,601	134,176
Cash and cash equivalents at end of year	17	292,028	73,601

The notes on pages 26 to 72 form an integral part of these financial statements.

NEO Energy Group Limited

Notes to the financial statements for the year ended 31 December 2021

1 General information

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

The nature of the Group's operations and its principal activities are development and production of oil and gas, as set out in the Strategic Report.

The financial statements are presented in United States Dollars (\$), which is the functional currency of the Company and Group, because that is the currency of the primary economic environment in which the Company and Group operates. The financial statements for the year ended 31 December 2021 were authorised for issue in accordance with a resolution of the Board dated 31 March 2022.

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

2 Basis of preparation

The consolidated financial statements of NEO Energy Group Limited have been prepared on a going concern basis in accordance with international accounting standards and in conformity with the requirements of the Companies Act 2006.

The financial statements of NEO Energy Group Limited have been prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3 below.

Effective from 1 January 2021, the parent company Neo Energy Group Limited changed its accounting framework from UK-adopted international accounting standards to the Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). Therefore, in preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the UK (UK-adopted international accounting standards), but makes amendments where necessary in order to comply with the Companies Act 2006 and to take advantage of FRS 101 disclosure exemptions.

On 31 December 2020, IFRS as adopted by the European Union and at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. In preparing these financial statements in accordance with FRS 101, the Company Financial Statements transitioned to UK-adopted international accounting standards (as described above) on 1 January 2021. There is no impact on recognition, measurement or disclosure in the period reported as a result of this change.

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Notes to the financial statements for the year ended 31 December 2021

Subsidiary undertakings exemption from audit

The following subsidiary companies will take advantage of the exemption from audit under section 479A of the Companies Act 2016 ('the Act') for the year ended 31 December 2021:

NEO Energy Exploration UK Limited
NEO Energy (North Sea) Limited
NEO Energy Oil & Gas Limited
NEO Energy Enterprises (North Sea) Limited
NEO E&P Holding Limited
NEO E&P Midco Limited
NEO E&P Limited
NEO Energy (ZEL) Limited
NEO Energy (ZNS) Limited
NEO Energy (ZOG) Limited
NEO Energy (ZEX) Limited

Summary of disclosure exemptions

The following exemptions from the requirements of IFRS have been applied in the preparation of the parent company financial statements, in accordance with FRS 101:

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted average exercise prices of share options, and how the fair value of goods or services received was determined).
- IFRS 7, 'Financial instruments: Disclosures'.
- 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).
- Paragraph 38 of IAS 1, 'Presentation of financial statements' – comparative information requirements in respect of:
 - paragraph 79(a)(iv) of IAS 1;
 - paragraph 73(e) of IAS 16, 'Property, plant and equipment'; and
 - paragraph 118(e) of IAS 38, 'Intangible assets' (reconciliations between the carrying amount at the beginning and end of the period).
- The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d) (statement of cash flows);
 - 16 (statement of compliance with all IFRS).
 - 38A (requirement for minimum of two primary statements, including cash flow statements);
 - 38B-D (additional comparative information).
 - 111 (statement of cash flows information); and
 - 134-136 (capital management disclosures).
- IAS 7, 'Statement of cash flows'.
- 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).
- 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 members of a group.

NEO Energy Group Limited

Notes to the financial statements for the year ended 31 December 2021

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 2021:

- COVID-19-Related Rent Concessions – amendments to IFRS 16, and

In March 2021, the Board amended the conditions of the practical expedient in IFRS 16 that provides relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the covid-19 pandemic.

- Interest Rate Benchmark Reform – Phase 2 – amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.

In August 2020, the IASB published Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. With publication of the phase two amendments, the IASB has completed its work in response to IBOR reform. The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR).

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

New standards and interpretations not yet adopted

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 31 December 2021 reporting periods and have not been early adopted by the group. These standards, amendments or interpretations are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

- Annual Improvements to IFRS Standards 2018-2020, and
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction – amendments to IAS 12
- Definition of Material – Amendments to IAS 1 and IAS 8

Going concern

In preparation of the financial statements, the Directors have made an assessment of the Group and the Company's ability to continue as a going concern. As at 31 December 2021, the Group had net current liabilities of \$10.7 million, cash balances of \$292.0 million and long term liabilities of \$3,724.8 million including non-current debt of \$1,367.4 million under the RBL facility. 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 Group's going concern assessment covered the period to June 2023. A severe but plausible downside scenario that included a future commodity price downside scenario which includes a severe but staged decrease to an oil price of \$50/bbl and a gas price of 45p per therm gas from July 2022 through June 2023 was included in the going concern assessment.

The Group's going concern assessment also included incorporating the cash forecasts for the acquisition of the JX Nippon Exploration and Production (U.K.) Limited by NEO group, the associated refinancing and the executed commodity price hedges in place as detailed in Note 22 and Note 23. The Group will fund the acquisitions through a combination of debt and existing cash resources. The Group will utilise its current RBL facility by accessing the accordion feature to increase the facility from the current \$2.0 billion commitment up to \$3.5 billion. The Group has secured a written Commitment and Mandate from a syndicate of banks to underwrite the increase in the facility.

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Notes to the financial statements for the year ended 31 December 2021

The Directors 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 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.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) up to 31 December each year. Subsidiaries are all entities over which the Group has control. The Group controls an entity where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to business combinations and goodwill section below).

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated, unless the transaction provides evidence of an impairment of the transferred asset.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group. Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

Investments in Joint operations and joint ventures

The Group 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 Group recognises its share of the assets, liabilities and expenses of these joint operations incurred jointly with the other partners, along with the Group's income from the sale of its share of the output and any liabilities and expenses that the Group has incurred in relation to the joint operation.

In addition, where the Group 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 consolidated Statement of Financial Position. The Group's licence interests are shown in Note 30.

Subsidiaries and listed investments

Subsidiaries and listed investments in the Company's balance sheet are stated at cost less, where appropriate, provisions for impairment.

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. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred;
- liabilities incurred to the former owners of the acquired business;
- equity interests issued by the Group;
- fair value of any asset or liability resulting from a contingent or deferred consideration arrangement; and
- fair value of any pre-existing equity interest in the subsidiary.

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Notes to the financial statements for the year ended 31 December 2021

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.

Any contingent or deferred 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 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.

Goodwill and intangible assets impairment

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

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

Revenue recognition

Revenue represents the sales value of the Group's oil liftings and gas deliveries in the year. 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 Group expects to be entitled to in exchange for those goods or services. The Group has concluded that it is the principal in its revenue arrangements because it typically controls the goods or services before transferring them to the customer.

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

Lifting or offtake arrangements for oil and gas produced by certain of the Group's joint operations are such that each participant may not receive and sell its precise share of the overall production in each year. The resulting imbalance between cumulative entitlement and cumulative liftings is 'underlift' or 'overlift'. Underlift and overlift are valued at net realisable value and included within current assets and current liabilities respectively. Movements during an accounting year are adjusted through cost of sales such that gross profit is recognised on an entitlement basis. Effective from 1 January 2021, the Group changed its accounting policy for valuing the group's overlift and underlift oil inventory balances from a lower of cost and net realisable value to the market price of oil at the

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Notes to the financial statements for the year ended 31 December 2021

date of lifting, consistent with the measurement of the sale and purchase. The decision for the change was to align with other peers in the market and the policy being a widely accepted industry practice which therefore provides more reliable and relevant information to the directors.

The impact on the comparative information is not material (\$11.8 million) and therefore no comparative information is restated.

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

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

Cost of sales

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

Pensions

The Group's employees and directors receive contributions to the Group 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 and supplementary tax, 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.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, and interests in joint ventures, except where the Group 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 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 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

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Notes to the financial statements for the year ended 31 December 2021

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.

The Group's presentational currency is United States Dollars and the company's functional and presentational currency is United States Dollars.

At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the income statement for the year. For the purposes of the consolidation, the income statement items of those entities for which the United States Dollars is not the functional currency are translated into United States Dollars at the average rates of exchange during the period. The related balance sheets are translated at the rates ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets and results of those entities, are reported in other comprehensive income and accumulated in equity.

Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, 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, and bank overdrafts.

Inventory

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

Exploration and evaluation (E&E) expenditure

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

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

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

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

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Notes to the financial statements for the year ended 31 December 2021

Property, plant and equipment - development and production assets

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

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

At each balance sheet date, the Group 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 Group makes an estimate of the asset's recoverable amount using a fair value less costs of disposal method. 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.

Asset swap / exchange

If the group enters into a transaction that involves exchanging part or all of its future production interest in a field for an interest in another field, it first determines the accounting requirements of whether the transaction represents the exchange of assets or a business combination. If the properties exchanged meet the definition of a business; if control is obtained over a property that meets the definition of a business then a business combination has occurred and the requirements of IFRS 3 will apply. If the transaction meets an exchange of asset, the acquired item is measured at the fair value of assets relinquished unless the fair value of asset or assets received is more readily determinable. A gain or loss is recognised on the difference between the carrying amount of the asset given up and fair value recognised for the asset received. If a fair value cannot be determined the acquired item is measured at cost, which will be the carrying amount of the asset given up and there will be no resulting gain or loss. The group also follows the guidance under IAS 16 in determining when an exchange transaction has commercial substance by considering the extent to which its future cash flows are expected to change as a result of the transaction.

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

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Decommissioning

Provision for future decommissioning costs is made in full when the Group 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 Group'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 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 group'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 Group'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.

Financial instruments

a) Classification and measurement

Financial assets

It is the Group'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.

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Notes to the financial statements for the year ended 31 December 2021

Classification and subsequent measurement are 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 income statement and at fair value through other comprehensive income.

All the Group's financial assets as at 31 December 2021 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 Group'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 Group 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 Group'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 Group'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 Group 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 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

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Notes to the financial statements for the year ended 31 December 2021

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 Group 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 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.

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 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 Group'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 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 or terminated, any gains or losses are recognised within other operating gains / losses for the period. 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.

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

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Notes to the financial statements for the year ended 31 December 2021

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 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 22 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 separated, with only the intrinsic component being designated as the hedging instrument and the time value component is deferred in the other comprehensive income.

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.

Critical accounting estimates

Depletion, depreciation and amortisation

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

During the year ended 31 December 2020, DD&A was calculated using a unit of production method by reference to only proven and probable reserves.

NEO Energy Group Limited

Notes to the financial statements for the year ended 31 December 2021

Decommissioning

The Group holds provisions for the future decommissioning of oil and natural gas production facilities and pipelines at the end of their economic lives. The largest decommissioning obligations facing the Group 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 Group 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.

Business combinations

Where acquisitions are accounted for as business combinations, the Group values the identifiable assets and liabilities associated with the acquisition based on currently available information on the fair values at the acquisition date. The fair value of assets is based on estimates of future cashflows expected to be derived from the production of commercial reserves, along with future commodity price assumptions and an appropriate discount factor (see Note 13 for details of key assumptions used).

Impairment

Goodwill and intangible assets that have an indefinite useful life are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. For development and production assets an impairment test is performed whenever events and circumstances arising during the development or production phase indicate that the carrying value of an asset may exceed its recoverable amount. The aggregate carrying value is compared against the expected recoverable amount of the CGU, generally by reference to the present value of the future net cash flows calculated on the basis of expected production profiles and estimated proven, probable and risked possible reserves. The recoverable amount is sensitive to changes in reserves. Assets are tested for impairment using expected production profiles along with future commodity price, opex and capex assumptions and an appropriate discount factor, in order to calculate the future cash flows generated from the Group's development and production assets. These cash flows are compared to the net book values carried by the Group to ascertain whether an impairment write down should be applied.

The key judgements relate to the future production and cost profile, oil price, discount rate and inflation rate and when determining the appropriate grouping of assets into a CGU or the appropriate grouping of CGUs for impairment testing purposes. For example, individual oil and gas properties may form separate CGUs whilst certain oil and gas properties with shared infrastructure may be grouped together to form a single CGU. Alternative groupings of assets or CGUs may result in a different outcome from impairment testing.

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

During the year ended 31 December 2020, the present value of future net cash flows was calculated with reference to expected production from estimated proven and probable reserves only. This would not have resulted in any material difference to the impairment charge recognised during 2020.

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:

NEO Energy Group Limited

Notes to the financial statements for the year ended 31 December 2021

1. Utilisation of available taxable losses: significant estimates are required in determining future phasing of the capital and operating programme, oil prices, production profile, and the resulting cash flows.
2. Estimation of the probable value of losses requires judgement regarding whether differences may arise between the value of tax losses submitted in tax computations and ultimately what may be agreed by the taxation authorities in the UK.

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

Climate Change

The Group recognises that there may be potential financial implications in the future from the risk of climate change. The Group 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 Group 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 Group believes there is no material impact on balance sheet carrying values of assets or liabilities. Although this is an estimate, it is not considered a critical estimate as 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.

Critical accounting judgements

Classification of preference shares

The Company has determined that the preference shares as detailed in Note 24 do not contain features that cause the instrument not to meet the definition of an equity instrument. Both the common shares and the preference shares are only redeemable by the Company by resolution of the shareholders and therefore any decision to redeem either class of shares would be made by the shareholders acting in their role as decision makers for the Company in a General Meeting. There is no fixed or future date for redemption. Although the preference shareholders are entitled to receive any distributions made in priority to any dividend on the common shares, all dividends are subject to declaration of an ordinary resolution by the Company and therefore the decision to declare or pay a preference dividend is also made by all shareholders as part of the ordinary decision making activities of the business in a General Meeting. A dividend must not be declared unless the directors have made a recommendation as to its amount and a dividend must not exceed the amount recommended by the directors. In addition, distributions arising in other circumstances such as a listing, sale or winding up would need to be agreed by all the shareholders acting in their role as decision makers for the Company and do not create an unconditional obligation for the Company to pay cash or another financial instrument until such decisions are made in a General Meeting.

NEO Energy Group Limited

Notes to the financial statements for the year ended 31 December 2021

5 Revenue

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

	2021	2020
	\$ 000	\$ 000
Oil	602,759	202,635
Gas and condensate sales	272,106	18,262
Tariff income	3,972	-
Other income	105	-
	878,942	220,897

Oil and gas revenue of \$988.1 million (2020: \$220.9 million) were from contracts with five (2020: twelve) customers in the UK. This excludes realised hedging losses on oil and gas sales in the year of \$113.2 million (2020: \$45.3 million gain).

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 Other operating gain

	2021	2020
	\$000	\$000
Realised commodities hedge gains	-	57,441
Realised hedge costs	-	(13,043)
Net realised commodities hedge gains	-	44,398
Commodities hedge fair value loss	-	(13,039)
Foreign exchange hedge fair value gain	-	13,924
Total other operating gain	-	45,283

Following the application of hedge accounting effective from 1 January 2021, the Group did not recognise any other operating gain.

7 Operating profit / (loss)

	2021	2020
	\$ 000	\$ 000
Operating profit / (loss) is stated after charging / (crediting):		
Depletion, depreciation and amortisation (Note 15)	219,372	89,694
Impairment expense (Note 15)	-	22,436
Impairment expense on goodwill (Note 14)	-	7,399
Foreign exchange (gain) / loss	(1,751)	3,408
Excess of fair value over costs of acquisition (Note 13)	(331,193)	-
Gain on disposal of assets	(7,367)	(4,208)
Fair value changes in contingent consideration	63,098	5,459
Other expenses	23,851	3,992
Auditors' remuneration	665	256

Excess of fair value over costs of acquisition has arisen on the acquisitions of Zennor (\$64.3 million) and ExxonMobil CNNS (\$210.8 million); and to a \$56.1 million gain resulting from the Flyndre Affleck licence exchange. Further details are disclosed in note 13.

NEO Energy Group Limited

Notes to the financial statements for the year ended 31 December 2021

Gain on disposal relates to the gain on Flyndre disposal (\$4.0 million) and Hudson licence withdrawal (\$0.4 million).

Other expenses relates to costs incurred in respect of business development activity during the period. This includes the transaction costs incurred in respect of the acquisitions of Zennor Petroleum Limited and ExxonMobil CNNS Limited.

In 2020, gain on disposal related to the sale by the Group in 2016 of the share capital of Oyster Petroleum Limited to Independent Oil and Gas. The sale and purchase agreement included deferred consideration of £1.75 million (\$2.2 million) on Field Development Plan approval of the Vulcan field, which occurred in early 2021. The sale and purchase agreement also included deferred consideration of £1.5 million (\$2.0 million) on Vulcan first gas which was targeted for Q3, 2021. The Group believed this receipt was virtually certain and therefore had recognised the gain on disposal.

8 Staff costs

The Company had no employees during the year (2020: none).

The staff costs of the Group comprised:

	2021 \$'000	2020 \$'000
Wages and salaries	24,066	8,734
Social security costs	3,581	1,616
Other pension costs	2,114	1,706
	29,761	12,056

	2021 No.	2020 No.
Average monthly number of employees including Directors in the year		
Technical and operations	97	24
Management and administration	61	49
	158	73

An element of the Group's staff costs was charged to projects and capitalised to the extent that they are directly attributable to capital projects, in accordance with the Group's accounting policy. The staff costs above are the total costs to the Group before capitalisation.

Employment contracts are held by NEO Energy Upstream UK Limited. The Group operates a defined contribution pension plan and the amounts charged to the income statement represent the contributions payable in the year.

Five (2020: five) directors of the Group received remuneration in respect of their services during 2021.

The aggregate emoluments of the directors of the Group for the year were as follows:

	2021 \$'000	2020 \$'000
Directors' emoluments	789	569

The five (2020: five) directors who received the emoluments above were remunerated through NEO Energy Upstream UK Limited. Directors' emoluments for the year include nil compensation for loss of office (2020: \$0.3 million) and \$0.4 million (2020: \$0.4 million) paid under consultancy agreements. Also included in the above, is a recharge for directors appointed to represent HitecVision VI, LP or HitecVision VII, LP for 2021.

NEO Energy Group Limited**Notes to the financial statements for the year ended 31 December 2021****Highest paid director**

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

	2021	2020
	\$'000	\$'000
Emoluments	465	406

Key management personnel remuneration is disclosed in Note 30.

9 Finance income

	2021	2020
	\$ 000	\$ 000
Interest receivable	1,255	1,575

10 Finance costs

	2021	2020
	\$ 000	\$ 000
Letters of credit and surety bonds	4,523	1,849
Bank charges and interest	43,336	22,545
Hedging costs	17,061	-
Unwinding of discount on contingent payments	2,538	-
Unwinding of discount on decommissioning provisions (Note 20)	19,632	9,761
	87,090	34,155

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Notes to the financial statements for the year ended 31 December 2021

11 Tax

	2021 \$'000	2020 \$'000
Current tax:		
UK corporation tax	18,068	8
	18,068	8
Deferred tax:		
Origination and reversal of temporary differences	57,560	(44,613)
Prior year adjustments	8,976	4
Total tax charge / (credit)	84,604	(44,601)

Factors affecting tax charge for year:

Group

The difference between the tax expense in the income statement and the amount calculated by applying the standard rate of UK corporation tax for oil and gas extraction activities of 30% (2020: 30%) and a supplementary charge of 10% (2020: 10%) is reconciled below.

	2021 \$'000	2020 \$'000
Profit / (loss) before tax	540,512	(87,312)
Tax on profit / (loss) at rate of 40% (2020: 40%)	216,205	(34,925)
Effects of:		
Non-deductible or non-taxable items	(116,171)	6,093
Ring fence expenditure supplement	(34,019)	(19,693)
Effects of income taxable at different tax rates	-	6
Prior year adjustments	8,976	4
Investment allowance	(26,623)	(2,804)
Effects of group relief / other reliefs	-	433
Group relief payment from previous owner (see below)	-	-
Deferred tax asset for losses not recognised	36,236	6,285
Total tax charge / (credit) for the year	84,604	(44,601)

The Government made a number of budget announcements on 3 March 2021. These include confirming that the rate of corporation tax will increase to 25% from 1 April 2023. This new law was substantively enacted on 24 May 2021. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

Group

The Group has a deferred tax liability of \$413.9 million on its ring fence trade (2020: deferred tax asset \$209.2 million).

The Group also has tax losses of \$188.9 million (2020: \$105.6 million) which are available indefinitely for offset against future profits. Deferred tax assets have not been recognised in respect of these losses due to the uncertainty of suitable future profits from which they can be deducted.

NEO Energy Group Limited

Notes to the financial statements for the year ended 31 December 2021

Deferred tax included in the balance sheet is as follows:

Deferred tax asset / (liability)	Provisions	Derivatives	Tax losses	Accelerated tax depreciation	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January 2020	57,427	-	212,235	(153,187)	116,475
Babbage additional interest acquisition (Note 13)	3,061	-	-	(2,758)	303
Acquisition of assets from TotalEnergies (Note 13)	160,959	-	86,047	(199,217)	47,789
Credited to the income statement	4,621	-	12,984	27,004	44,609
At 31 December 2020	226,068	-	311,266	(328,158)	209,176
Prior year adjustments	(1,638)	(5,007)	(3,160)	827	(8,978)
Acquisition of Zennor & ExxonMobil CNNS (Note 13)	349,438	5,007	450,901	(1,449,223)	(643,877)
Exchange rate differences	(2,362)	-	-	-	(2,362)
Charged to OCI	3,210	86,445	-	-	89,655
Charged to the income statement	29,924	-	(117,025)	29,541	(57,560)
At 31 December 2021	604,640	86,445	641,982	(1,747,013)	(413,946)
				2021	2020
				\$'000	\$'000
Deferred tax liability					
Accelerated capital allowances				(1,747,013)	(328,158)
Deferred tax asset					
Tax losses carried forward				641,982	311,266
Provisions				604,640	226,068
Derivatives				86,445	-
				1,333,067	537,334
Disclosed on the balance sheet:					
Deferred tax liability				413,946	-
Deferred tax asset				-	209,176

12 Investment

	2021	2020
Group	\$'000	\$'000
Cost – Listed investment	225	225
Provision for change in market value	(225)	(225)
At 31 December 2021 and 31 December 2020	-	-

The listed investment is in Otto Energy Limited, an oil and gas exploration and production company listed on the Australian stock exchange. The market value is based on the exchange rate prevailing at that date. The investment was acquired as part of the acquisition of Verus Petroleum UK Limited, now NEO Energy Upstream UK Limited.

Company – shares in subsidiary undertakings

	\$'000
Net book value at 31 December 2021 and 31 December 2020	50,222

NEO Energy Group Limited

Notes to the financial statements for the year ended 31 December 2021

At 31 December 2021, the subsidiary undertakings which were all wholly owned were:

Direct Control

Name	Country of incorporation / operation	Nature of Business
NEO Energy Upstream UK Limited*	UK	Holding company
NEO Energy (North Sea) Limited**	UK	Holding company
NEO Energy Exploration UK Limited**	UK	****

Indirect Control

Name	Country of incorporation / operation	Nature of Business
NEO Energy (CNS) Limited *	UK	****
NEO Energy (Exploration) Limited *	UK	****
NEO Energy Oil & Gas Limited **	UK	Dormant company
NEO Energy (SNS) Limited *	UK	****
NEO Energy (Production) Limited **	UK	****
NEO Energy Enterprises Limited **	UK	****
NEO Energy Enterprises (North Sea) Limited **	UK	Dormant company
NEO Energy (UKCS) Limited **	UK	****
NEO E&P Holding Limited **	UK	Holding company
NEO E&P Midco Limited **	UK	Holding company
NEO E&P Limited **	UK	Holding company
NEO Energy Production UK Limited **	UK	****
NEO Energy (ZNS) Limited **, *****	UK	****
NEO Energy Pathway Limited **, *****	UK	****
NEO Energy (ZNI) Limited ***, *****	UK	****
NEO Energy (ZPL) Limited **, *****	UK	****
NEO Energy (ZEX) Limited **, *****	UK	****
NEO Energy (ZEL) Limited **, *****	UK	****
NEO Energy (ZPL) Limited **, *****	UK	****
NEO Energy Central North Sea Limited **, *****	UK	****
NEO Energy (ZOG) Limited **, *****	UK	****
NEO Energy Natural Resources Limited **, *****	UK	****

* 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

***** New subsidiary in 2021(Note 13)

NEO Energy Group Limited

Notes to the financial statements for the year ended 31 December 2021

13 Business Combinations

During the year, the Group completed two acquisitions; the acquisition of independent oil and gas company Zennor Petroleum Limited ("Zennor"), which comprised a portfolio of assets located in the Central and Northern North Sea and acquiring a major portfolio of non-operated oil and gas assets in the Central and Northern North Sea from ExxonMobil Corporation ("Exxon"), via the acquisition of Exxon's wholly owned subsidiary ExxonMobil CNNS Limited. The business combinations continue the Group's strategy of becoming a leading producer in the UK Continental Shelf ("UKCS").

The valuations presented below are based on currently available information on the fair values as at the acquisition dates. The fair value of assets is based on estimates of future cashflows which is dependent on the Group's current best estimate of proven, probable and risked possible reserves, along with future commodity price assumptions and an appropriate discount factor. If new information becomes available within 12 months from the acquisition date, the Group may change the fair value assessment in the Purchase Price Allocation, in accordance with IFRS 3.

Both acquisitions have been accounted for as business combinations.

Acquisition of Zennor

On 8 March 2021, NEO Energy Upstream UK Ltd, a wholly owned subsidiary of the Group, entered into a Sale and Purchase Agreement for the purchase of Zennor from Plutus Energy Investments Holdings Ltd, an entity owned by Kerogen Capital, an independent private equity fund manager.

The transaction completed on 12 July 2021 and adds interests in several producing assets together with a portfolio of exploration and pre-development assets. In particular, the portfolio includes assets concentrated in two strategic production hubs, Britannia and ETAP which includes both currently producing assets as well as numerous infield and satellite development opportunities.

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Notes to the financial statements for the year ended 31 December 2021

The provisional fair value of the identifiable assets and liabilities of Zennor as at the date of acquisition, and resulting excess of fair value over cost, are as follows:

	Total \$'000
Property, plant and equipment	549,605
Deferred tax asset	288,069
Inventory	1,358
Trade and other receivables	5,128
Cash and cash equivalents	12,025
Trade and other payables	(15,350)
Lease liabilities	(957)
Provisions - current	(1,737)
Derivative liabilities	(8,972)
Loans and borrowings – non-current	(256,207)
Deferred tax liabilities	-
Provisions – non-current	(126,985)
Fair value of identifiable net assets acquired	445,977
Cash consideration	(300,656)
Contingent consideration	(76,000)
Other consideration	(5,000)
Total consideration transferred	(381,656)
Excess of fair value over cost of acquisition (Note 7)	64,321
Cash consideration	(300,656)
Net cash acquired	12,025
Net consolidated cash outflow	(288,631)

The fair values of the oil and gas assets and intangible assets acquired have been determined using valuation techniques based on discounted cash flows, using forward curve commodity prices and estimates of long-term prices detailed below. This is consistent with those applied by management when testing assets for impairment, a discount rate based on market observable data and cost and production profiles consistent with the proven, probable and risked possible reserves acquired with each asset. The fair values are classified as level 3 fair values in the fair value hierarchy, due to the inclusion of unobservable inputs.

The key assumptions used in determining the fair value of assets and liabilities were:

- Oil price of \$74 per barrel in 2021, \$60 in 2022 and thereafter \$60 (real) inflated by 2% per annum
- Gas price of £0.93 per therm 2021, £0.40 in 2022 and thereafter 40p (real) inflated by 2% per annum
- An annual discount rate of 8%
- Assumed inflation of 2% per annum
- An exchange rate of \$1.35 / £

The deferred tax asset recognised on acquisition represents the value of acquired tax losses offset by deferred tax balances arising as a result of the difference between the tax base of assets and liabilities acquired and their associated carrying amounts. The deferred tax asset has been determined as recoverable based on management's assessment of the future estimated cash flows resulting from the assets acquired and NEO's existing UKCS portfolio.

The decommissioning provisions recognised have been estimated based on the Group's internal estimates with reference to observable market data, including rig rates.

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Notes to the financial statements for the year ended 31 December 2021

The fair value of debt facilities has been determined based on the total fair value of cash paid immediately after completion to satisfy Zennor's historical debt arrangements.

The Group will settle amounts between nil and \$110.0 million from various contingent payment arrangement which comprise:

- An amount of \$60.0 million payable on achieving certain milestones associated with the completion of the Finlaggan development. This was paid in full on 4 January 2022.
- An amount of \$20.0 million payable on approval of the Leverett development by the OGA prior to 31 December 2025.
- Amounts up to \$30.0 million payable in relation to future production between 2022 and 2023, where oil and gas prices exceed certain minimum levels.

The consideration includes contingent amounts of \$76.0 million which represents management's estimation of the fair value of contingent payments and comprises:

- The \$60.0 million payable in respect of the Finlaggan development.
- An amount of \$16.0 million payable in respect of the Leverett development, risked based on an 80% probability of pay-out.

The fair value of amount payable in respect of 2022 and 2023 production levels, as triggered by future oil and gas prices, was determined to have a fair value of nil at the date of completion, based on management's prevailing estimate of future oil and gas prices. Subsequent to the acquisition, the fair value of contingent hydrocarbon payments as at 31 December 2021, was determined to be \$30.0 million as a result of the increase in management estimate of future oil and gas prices. This resulted in a charge of \$30.0 million, which was recognised in fair value changes in contingent consideration in the income statement.

The excess of fair value of the net assets acquired over the purchase consideration has arisen primarily due to the favourable movement in oil and gas prices between the date of entering into the transaction and the completion date. This has been recognised immediately in the consolidated income statement.

From the date of acquisition to 31 December 2021, Zennor contributed \$225.0 million to Group revenue and increased the Group's profit before tax by \$133.0 million. If the acquisition of Zennor had taken place at the beginning of the year, Zennor's contribution to Group revenue for the year ended 31 December 2021 would have been \$254.0 million and would have increased the Group's profit before tax by \$121.0 million.

Acquisition related costs of \$3.7 million were incurred by the Group and recognised as an expense within other expenses.

The excess of fair value over cost of acquisition is not subject to corporation tax.

Acquisition of ExxonMobil CNNS

On 23 February 2021, NEO Energy Upstream UK Ltd, a wholly owned subsidiary of the Group, entered into a Put and Call Option Deed ("PCOA") over the entire issued share capital ExxonMobil CNNS Limited with Esso Exploration and Production UK Limited, a wholly owned subsidiary of ExxonMobil Corporation.

The transaction completed on 8 December 2021 and adds various non-operated interests in four major production areas (Gannet area; Elgin-Franklin area; Shearwater area; Penguins areas). In addition, the ExxonMobil CNNS portfolio includes a number of other non-operated producing assets and a number of infrastructure interests.

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Notes to the financial statements for the year ended 31 December 2021

The provisional fair value of the identifiable assets and liabilities of ExxonMobil CNNS as at the date of acquisition, and resulting excess of fair value over cost, are as follows:

	Total \$'000
Property, plant and equipment	3,115,411
Inventory	15,339
Trade and other receivables	19,552
Cash and cash equivalents	-
Trade and other payables	(156,188)
Deferred tax liabilities	(931,946)
Provisions – non-current	(744,647)
Fair value of identifiable net assets acquired	1,317,521
Cash consideration	(755,484)
Contingent consideration	(293,266)
Deferred consideration	(57,963)
Total consideration transferred	(1,106,713)
Excess of fair value over cost of acquisition (Note 7)	210,808
Cash consideration	(755,484)
Net cash acquired	-
Net consolidated cash outflow	(755,484)

The fair values of the oil and gas assets acquired have been determined using valuation techniques based on discounted cash flows using forward curve commodity prices and estimates of long-term prices detailed below. This is consistent with those applied by management when testing assets for impairment, a discount rate based on market observable data and cost and production profiles consistent with the proven, probable and risked possible reserves acquired with each asset. The fair values are classified as level 3 fair values in the fair value hierarchy, due to the inclusion of unobservable inputs.

The key assumptions used in determining the fair value of assets and liabilities were:

- Oil price of \$78 per barrel in 2022, \$73 in 2023 and thereafter \$70 (real) inflated by 2% per annum
- Gas price of £1.15 per therm 2022, £0.75 in 2023 and thereafter £0.50 (real) inflated by 2% per annum
- An annual discount rate of 8%
- Assumed inflation of 2% per annum
- An exchange rate of \$1.35 / £

The decommissioning provisions recognised have been estimated based on the Group's internal estimates with reference to observable market data, including rig rates.

The consideration includes certain deferred and contingent consideration amounts which comprise:

- Deferred consideration of \$62.5 million payable on 31 December 2023.
- Contingent consideration of \$37.5 million which will be payable if the Penguins redevelopment completion date falls before 31 December 2023. The redevelopment completion is deemed to occur upon completion of the first oil cargo loading from the Penguins FPSO.
- Contingent hydrocarbon payments of up to \$275.0 million are payable on future production between 2022 and 2024, where oil and gas prices exceed certain minimum levels.

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Notes to the financial statements for the year ended 31 December 2021

Management expects the Penguins redevelopment to complete before 31 December 2023 and has therefore provided for this amount in full within its calculation of consideration paid.

The contingent hydrocarbon payments have been modelled based on management's view of future production and the Groups prevailing oil and gas price assumptions. Based on this modelling, the contingent hydrocarbon payments will pay out in full and therefore this amount has also been provided for within the calculation of consideration paid.

The total fair value of the deferred consideration and contingent consideration have been determined as \$58.0 million and \$293.3 million respectively. This is based on the present value of future expected cashflows based on a discount rate of 3.84%, representing the Group's weighted average cost of debt.

The excess of fair value of the net assets acquired over the purchase consideration has arisen primarily due to the favorable movement in oil and gas prices between the date of entering into the transaction and the completion date. This has been recognised immediately in the consolidated income statement.

From the date of acquisition to 31 December 2021, ExxonMobil CNNS contributed \$73.4 million to Group revenue and increased the Group's profit before tax by \$62.7 million. If the acquisition of ExxonMobil CNNS had taken place at the beginning of the year, the contribution to Group revenue for year ended 31 December 2021 would have been \$633.4 million and would have increased the Group's profit before tax by \$165.0 million.

Acquisition related costs of \$10.1 million were incurred by the Group and recognised as an expense within other expenses.

The excess of fair value over cost of acquisition is not subject to corporation tax.

As part of the acquisition of ExxonMobil CNNS, the company executed a separate sale and purchase agreements to acquire a 2.86085% interest in the Forties field. This comprised a 2.61085% interest acquired from Esso Exploration and Production UK Limited and a 0.25% interest from Shell U.K. Limited. Both transactions completed on 8 December 2021. The purchase of both Forties interests was linked to completion of the purchase of ExxonMobil CNNS Limited and accordingly the acquisitions have therefore been included within the accounting for the ExxonMobil CNNS transaction.

Acquisition of assets from TotalEnergies – Golden Eagle, Quad 15, Flyndre, Affleck, Scott & Telford

On 31 July 2020, the Group completed the acquisition of a package of assets from Total Oil UK Ltd and Total E&P North Sea UK Ltd. The fields and equity interest acquired are included in the table below:

Asset acquired	Equity interest
Golden Eagle, Solitaire, Peregrine	31.6%
Balloch, Lochranza, Dumbarton, Drumtochty (Quad 15)	100.0%
Flyndre	65.9%
Affleck	66.7%
Scott	5.2%
Telford	2.4%

The primary reason for the acquisition was to substantially increase the Group's production capacity, proven reserves base and near term free cash flow and to succeed the seller as Operator of the Quad 15, Flyndre and Affleck fields.

NEO Energy Group Limited

Notes to the financial statements for the year ended 31 December 2021

The fair values of the identifiable assets and liabilities of the interest at acquisition were:

	Total
	\$'000
Property, plant and equipment - development and production assets	482,889
Property, plant and equipment - development and production assets capital stock	12,353
Property, plant and equipment - production facility asset	2,800
Deferred tax asset	247,006
Oil underlift	39,481
Accruals	(664)
Deferred tax liability	(199,217)
Decommissioning provision	(402,397)
Fair value of identifiable net assets acquired	182,251
Cash consideration	(284,998)
Contingent consideration	(33,723)
Goodwill arising on acquisition (Note 14)	(136,470)
 Cash consideration	 (284,998)
Net cash acquired	-
Net consolidated cash outflow	(284,998)

Market values were not available for property, plant and equipment; therefore, the Group performed a fair value exercise by discounting expected future cash flows at prevailing interest and exchange rates.

Goodwill of \$136 million arose on the acquisition, mainly as a result of accounting Technical Accounting Goodwill of \$199 million, which is non-cash, and had been recognised for deferred tax liabilities on the tangible net asset fair market value as at the acquisition date in accordance with the requirements of IFRS 3. This will unwind over time through the income statement as depreciation and depletion is charged on the assets. The Goodwill on acquisition of \$136 million was calculated after taking account of the non-cash Technical Accounting Goodwill of \$199 million. Excluding the Technical Accounting Goodwill, the fair value of the acquisition was in excess of the purchase consideration by \$63 million primarily due to an increase in the oil in place and improved performance of the Golden Eagle asset and the impact of this on the net present value of expected future cashflows.

The fair value of the contingent oil price payments which were payable under the purchase agreement had been assessed and included in the purchase consideration. There were no contingent liabilities and assets for the asset interests acquired.

From the date of acquisition to 31 December 2020, the additional equity in the assets acquired had contributed \$107 million revenue from oil sales. The additional equity in the assets acquired also generated profit before tax of \$4.9 million from the acquisition date to 31 December 2020 mainly due to the continuous production from the assets acquired. Had the additional equity been acquired at the start of the 2020, the contribution to Group revenue for the year ended would have increased by \$88 million and profit before tax would have reduced by \$1.7 million due to lower oil prices realized in the first half of the year due to the COVID-19 economic impact.

The Group had contingent consideration at 31 December 2020 arising from its acquisition of certain assets from TotalEnergies during the year. The contingent payments are triggered if the average annual Dated Brent price is greater than the applicable price thresholds in the acquisition agreement.

The potential undiscounted amount of all future payments that the Group could be required to make under this arrangement is between \$0 and \$70 million and was relevant for 2021 and 2022 based on the average annual Dated Brent oil price. The fair value of the contingent consideration of \$34.5 million had been estimated by calculating the present value of the future expected cash flows and was recorded as a provision as at 31 December 2020. The estimates were based on a discount rate of 8% and assumed probability-adjusted production and average annual Dated Brent oil price.

NEO Energy Group Limited

Notes to the financial statements for the year ended 31 December 2021

Babbage Acquisition

On 14 May 2020 the Group completed the acquisition of a further 13% interest in the Babbage field. The primary reason for the acquisition was to increase the Group's production capacity and reserves base and to succeed the seller as Operator of the Babbage asset.

The fair values of the identifiable assets and liabilities of the Babbage interest at acquisition were:

	Total \$'000
Property, Plant and Equipment - Oil and Gas Asset	6,895
Deferred tax Asset	3,061
Prepayments and accrued income	14
Accruals	(534)
Deferred tax liability	(2,758)
Decommissioning provision	(7,286)
Fair value of identifiable net liabilities acquired	(608)
Consideration	(6,791)
Goodwill arising on acquisition (Note 14)	(7,399)
Consideration	(6,791)
Net cash acquired	-
Net consolidated cash outflow	(6,791)

Market values were not available for Property, plant and equipment; therefore, the Group performed a fair value exercise by discounting expected future cash flows at prevailing interest and exchange rates.

The goodwill of \$7.4 million assessed on the purchase had been charged as an impairment expense in the Income Statement owing to the Group's total combined Babbage asset interest not having sufficient value at the year end impairment assessment to support further general goodwill being capitalised for this asset.

From the date of acquisition, the additional equity in Babbage had contributed \$2.1 million revenue through gas sales from the acquisition date to 31 December 2020. The additional equity in Babbage also generated a loss before tax of \$0.02 million from the acquisition date to 31 December 2020 mainly due to the continuous production from the asset and lower gas prices in the first half of the year due to the COVID-19 economic impact. Had the additional equity been acquired at the start of 2020, the contribution to Group revenue for the year ended would have increased by \$1.2 million and profit before tax would have reduced by \$2.6 million.

14 Intangible assets

	2021 \$'000	2020 \$'000
Cost		
At 1 January	147,552	11,082
Acquisition of assets from TotalEnergies – Golden Eagle, Quad 15, Flyndre, Affleck, Scott & Telford (Note 13)	-	136,470
Babbage Acquisition (Note 13)	-	7,399
Impairment of goodwill on Babbage acquisition	-	(7,399)
At 31 December	147,552	147,552

NEO Energy Group Limited

Notes to the financial statements for the year ended 31 December 2021

Goodwill

Goodwill during 2020, arose from the acquisition of a package of assets from Total Oil UK Ltd and Total E&P North Sea UK Ltd on 31st July 2020 (Note 13). The goodwill had been allocated to a CGU consisting of all of the producing assets in NEO Energy Production UK Limited comprising the Golden Eagle, Quad 15, Flyndre, Affleck and Scott/Telford fields. The goodwill on the acquisition was assessed to be fully recoverable at 31 December 2020.

Goodwill acquired through business combinations prior to 2020 and the acquisition of a further 13% interest in Babbage in 2020 had been allocated to a cash generating unit (CGU) consisting of all of the producing assets in NEO Energy SNS Limited, comprising the Boa, Alba and Babbage fields. The goodwill of \$7.4 million assessed on the further 13% interest in Babbage had been charged as an impairment expense in the Income Statement in 2020 owing to the Group's total combined Babbage asset interest not having sufficient value at the year end impairment assessment to support further general goodwill being capitalised for this asset.

The recoverable amount of the CGU's was determined by fair value less cost of disposal calculations which measure the net present value at the reporting date of the anticipated cash flow projections from each individual asset which comprise the portfolio underpinning the CGU.

Impairment testing of Oil and Gas Assets and Goodwill

In accordance with IAS 36 Impairment of Assets, goodwill and oil and gas (development and production) assets have been reviewed for impairment at the year end. In assessing whether goodwill and oil and gas assets have been impaired, the carrying amount of the CGU for goodwill and at field level for oil and gas assets 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 basis. 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 and gas prices
- Oil & gas reserves and production volumes
- Currency exchange rates
- Discount rates, and
- Opex and capex costs

The key assumptions used year end impairment testing are \$78 (2020: \$64) per barrel of oil in 2022, \$73 in 2023, and thereafter inflated by 2% per annum, £1.15 (£0.45) per therm of gas in 2022, £0.75 per therm of gas in 2023, £0.50 per therm of gas in 2023, 8% (2020: 8%) discount rate and 2% (2020: 2%) inflation rate.

Sensitivity to changes in assumptions

The Group's recoverable value of assets is highly sensitive to actual oil and gas prices achieved and the discount rates applied. If the oil and gas prices were to fall by 10% compared with the base assumptions, this would result in \$26.7 million impairment in oil and gas asset carrying values and a \$19.6 million impairment to goodwill. A 1% increase in the discount rate would not result in any impairment to either oil and gas carrying values or goodwill.

NEO Energy Group Limited

Notes to the financial statements for the year ended 31 December 2021

15 Property, plant and equipment

Group	Development and production assets	Office equipment, furniture and fittings	Leasehold improvements	Right-of-use assets	Total
Cost	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January 2020	530,109	1,057	-	797	531,963
Acquisitions (Note 13)	504,937	-	-	-	504,937
Additions	53,011	1,134	-	2,481	56,626
Capital stock transferred to inventory	(12,353)	-	-	-	(12,353)
Write offs	-	-	-	(797)	(797)
Disposal	(4,621)	(274)	-	-	(4,895)
Change in decommissioning provision (Note 20)	2,926	-	-	-	2,926
At 31 December 2020	1,074,009	1,917	-	2,481	1,078,407
Acquisitions (Note 13)	3,733,806	18	-	959	3,734,783
Additions	92,234	157	2,767	9,309	104,467
Exchange differences	(16,107)	-	-	(23)	(16,130)
Disposal	(14,054)	-	-	(717)	(14,771)
Change in decommissioning provision (Note 20)	70,926	-	-	-	70,926
At 31 December 2021	4,940,814	2,092	2,767	12,009	4,957,682
Accumulated depletion, depreciation and amortisation					
At 1 January 2020	(143,356)	(466)	-	(158)	(143,980)
Charge for the year (Note 7)	(88,843)	(192)	-	(659)	(89,694)
Impairment (Note 7)	(22,436)	-	-	-	(22,436)
Write offs	-	-	-	158	158
Disposal	4,621	274	-	-	4,895
At 31 December 2020	(250,014)	(384)	-	(659)	(251,057)
Charge for the year (Note 7)	(216,678)	(1,913)	(49)	(732)	(219,372)
Reclassification	-	234	(234)	-	-
Exchange differences	-	-	-	4	4
Disposal	6,620	-	-	80	6,700
Impairment	-	-	-	-	-
At 31 December 2021	(460,072)	(2,063)	(283)	(1,307)	(463,725)
Net book value					
At 31 December 2020	823,995	1,533	-	1,822	827,350
At 31 December 2021	4,480,742	29	2,484	10,702	4,493,957

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Notes to the financial statements for the year ended 31 December 2021

During the year ended 31 December 2021, the Group executed an exchange agreement (“swap”) with Repsol Sinopec to acquire a 33.3% share in the Affleck licence in exchange for a Group’s entire 65.9% interest in Flyndre. The commercial rationale for the deal was to unlock the Affleck development in return for a late life asset which was not material relative to the Group’s portfolio and had a better strategic fit for Repsol. This has resulted in a \$69.8 million fair value adjustment to property, plant and equipment with a corresponding gain on acquisition of \$56.1 million which is included in the income statement in excess of fair value over cost of acquisition.

Exploration and evaluation expenditure of \$12.5 million has been included within Property, plant and equipment.

In 2020, within Property, plant and equipment, a net impairment of \$22.4 million was incurred. This included an impairment of \$28.8m on the Western Isles field due to a reduction in reserves. This was partially offset by reversals of impairment of \$6.4 million in relation to changes in the decommissioning provision.

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

	2021	2020
	\$'000	\$'000
Current (Note 18)	1,071	764
Non-current	10,365	1,798
	11,436	2,562

Interest expense was \$0.3 million (2020: \$0.1 million). The total cash outflow for leases in 2021 was \$0.4 million (2020: nil).

16 Trade and other receivables

	Group 2021	Group 2020	Company 2021	Company 2020
	\$'000	\$'000	\$'000	\$'000
Current				
Trade receivables	4,490	6,076	-	-
Prepayments	16,527	23,055	-	-
Accrued income	253,179	25,225	-	-
Amounts due from subsidiary undertakings	-	-	327,785	219,993
Amounts due from immediate parent company	-	49	-	-
VAT receivable	2,164	3,588	-	77
Underlift	121,891	24,305	-	-
Derivative financial asset (Note 22)	96,216	3,629	-	-
Other receivables	39,049	-	-	-
	533,516	85,927	327,785	220,070

Group

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

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Notes to the financial statements for the year ended 31 December 2021

Company

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

The Group's and Company's credit risk considerations required under IFRS 9 Financial Instruments, including expected credit loss, are disclosed in Note 23.

17 Cash and cash equivalents

	Group	Group	Company	Company
	2021	2020	2021	2020
	\$ 000	\$ 000	\$ 000	\$ 000
Cash at bank	285,193	66,726	170,409	2,371
Restricted cash	6,835	6,875	-	-
	292,028	73,601	170,409	2,371

The cash and cash equivalents disclosed above and in the statement of cash flows include restricted cash which are held by NEO.

Restricted cash of \$6.8 million at 31 December 2021 (2020: \$6.9 million) represents the US dollar equivalent of £5.0 million (2020: £5.1 million) cash held in escrow (to the Law Debenture Society), in relation to the security requirements on the Victoria field at acquisition and will be released on satisfaction of the decommissioning liabilities.

18 Trade and other payables

	Group	Group	Company	Company
	2021	2020	2021	2020
	\$ 000	\$ 000	\$ 000	\$ 000
Trade payables	117,611	45,904	246	-
Tax payables	56,416	-	-	-
Amounts due to subsidiary undertakings	-	-	2,935	3,001
Amounts due to ultimate parent undertaking	39,059	-	-	-
Other tax and social security costs	1,593	415	-	-
Accruals	210,845	71,775	-	570
Overlift	63,830	-	-	-
Contingent consideration	95,467	-	-	-
Derivative financial liability (Note 22)	236,126	17,242	-	-
Lease liability (Note 15)	1,071	764	-	-
	822,018	136,100	3,181	3,571

Trade payables principally comprise amounts outstanding for trade purchases of the Group by the joint operations (mainly oil and gas exploration and development expenditure) and ongoing administrative costs.

Contingent consideration relates to TotalEnergies acquisition for \$35.0 million and Zennor acquisition for \$60 million. The non-current portion is detailed in note 21.

On 26 November 2021, NEO Energy Holding Limited, paid a deposit for the acquisition of JX Nippon Exploration and Production (U.K.), on behalf of NEO Energy Upstream UK Limited, of \$39m. As this payment did not pass-through NEO Energy Group, this payment is not disclosed withing the consolidated statement of cash flows on page 25.

NEO Energy Group Limited

Notes to the financial statements for the year ended 31 December 2021

The Group has financial risk management policies in place to ensure that all payables are paid within the credit year.

The directors consider that the carrying amount of trade payables approximates to their fair value due to their short term nature.

19 Loans and other borrowings

	2021 \$'000	2020 \$'000
Current bank loan	-	74,823
Non-current bank loan	1,403,000	242,369
Total outstanding loan amount	1,403,000	317,192
Loan fees	(35,553)	(12,167)
Total loans and borrowings	1,367,447	305,025

	2021 \$'000	2020 \$'000
Maturity of financial liabilities		
In one year or less, or on demand	-	74,823
In more than one year, but not more than two years	-	78,537
In more than two years, but not more than five years	1,367,447	151,665
Total	1,367,447	305,025

The Group's primary source of debt financing as at 31 December 2021 was through a Reserve Based Lending (RBL) facility of up to \$2,000 million with a syndicate of banks. Under the RBL agreement the 'borrowing base' amount is determined by valuation of the Group's cash flows from the Western Isles, Babbage, Scott, Telford, Boa, Gannet, Shearwater, Fram, Starling, Elgin-Franklin, Penguins, Nelson, Forties, Finlaggan, Mungo & Monan, Bacchus, Britannia, ETAP, Golden Eagle, Quad 15 (Dumbarton, Lochranza and Balloch fields).

As at 31 December 2021, the lenders had a floating charge over all the assets of the Group 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 2021 attracts interest at LIBOR for each interest rate period (1, 3 or 6 months) plus a stepped margin rate which increases at set anniversaries: Initial agreement 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 2021 the loan attracted a margin of 3.5%. The directors consider that the carrying amount of loans approximates to their fair value as at 31 December 2021.

The maximum facility amount is subject to semi-annual redetermination and amortises on a six-monthly basis starting on 17 July 2023, to final maturity on 17 July 2027. 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. As at 30 June 2021, the maximum available amount was \$1,403 million, plus certain additional availability for letters of credit. Under the terms of the loan agreement a redetermination should have taken place on 31 December 2021, however a waiver for this was accepted by the syndicate banks, so no redetermination took place. The next redetermination will take place on 30 June 2022. 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 2021, the group is fully compliant with the financial covenant.

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Notes to the financial statements for the year ended 31 December 2021

20 Provisions

Group	Decommissioning provisions		Dilapidation provisions		Total provisions	
	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
At 1 January	563,302	145,924	-	-	563,302	145,924
Acquisitions (Note 13)	887,069	409,683	-	-	887,069	409,683
Addition	-	-	607	-	607	-
Disposal	(17,802)	-	-	-	(17,802)	-
Utilisation of provision	(4,836)	(222)	-	-	(4,836)	(222)
Movement in provision (Note 15)	70,926	2,926	-	-	70,926	2,926
Unwinding of discount on decommissioning provision (Note 10)	19,632	9,761	-	-	19,632	9,761
Total provisions at 31 December	1,518,291	568,072	607	-	1,518,898	568,072
Reclassified to current liability	(38,816)	(4,770)	-	-	(38,816)	(4,770)
Long term provisions at 31 December	1,479,475	563,302	607	-	1,480,082	563,302

Decommissioning costs are expected to be incurred between 2022 and 2043. The provision has been based upon existing technology, current legislation requirements and discounted using a rate of 2.5% (2020: 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.

The Group has posted decommissioning security in respect of future abandonment liabilities of \$605.5 million, comprising of \$321.6 million (2020: \$60.4 million) of letters of credit and \$283.9 million (2020: \$143.9 million) of surety bonds.

As part of the acquisition of certain assets, associated decommissioning liabilities have been retained by the vendor in full or to an amount specified in the relevant sale and purchase agreement.

On the basis that all other assumptions in the calculation remain the same, a 1% reduction in the discount rate would result in an increase in the decommissioning liability of \$198.0 million. The change would be principally offset by a change to the value of the associated asset unless the asset is fully depreciated, in which case the change in estimate is recognised directly within the income statement.

The disposal relates to the derecognition of the decommissioning liability of the Flyndre asset following the sale to Repsol Sinopec.

Dilapidation provisions relate to the leased buildings of the Group.

Provisions – Company	Decommissioning provision	
	2021 \$'000	2020 \$'000
At 1 January	6,573	7,456
Movement in provision	(789)	(774)
Unwinding of discount on decommissioning provision (Note 10)	207	224
Total provisions at 31 December	5,991	6,906
Reclassified to current liability	(4,700)	(333)
Long term provisions at 31 December	1,291	6,573

The Company has a contingent funding obligation to NEO Energy Exploration UK Limited to fund the Athena decommissioning programme. The Company acquired this obligation as part of the original acquisition of that subsidiary.

NEO Energy Group Limited

Notes to the financial statements for the year ended 31 December 2021

21 Other non-current liabilities

<i>Group</i>	2021	2020
	\$'000	\$'000
Onerous contract	3,846	2,146
Contingent consideration	374,266	34,521
Deferred consideration (Note 13)	57,963	-
	436,075	36,667

Contingent consideration relates to Zennor and ExxonMobil CNNS acquisitions of \$309.3 million, TotalEnergies acquisition of \$35.0 million and \$30.0 million relates to contingent hydrocarbon payment for Zennor.

Deferred consideration relates the ExxonMobil CNNS acquisition. See note 13.

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

The Group had contingent consideration at 31 December 2020 arising from its acquisition of certain assets from TotalEnergies during that year. The contingent payments are triggered if the average annual Dated Brent price is greater than the applicable price thresholds in the acquisition agreement. The fair value of the contingent consideration of \$34.5 million had been estimated by calculating the present value of the future expected cash flows and was recorded as a provision as at 31 December 2020. Other provisions also included \$2.2 million (2020: nil) for onerous contracts entered into during 2020.

22 Financial risk management

The Group held the following financial instruments at fair value as 31 December 2021. Derivative financial instruments are initially recognised and subsequently re-measured at fair value. They have been classified in accordance with the hierarchy described in IFRS 13 'Fair value measurement'. The Group's derivative financial assets and liabilities are level 1 financial instruments.

Current derivative assets and liabilities

	2021		2020	
	Assets	Liabilities	Assets	Liabilities
	\$'000	\$'000	\$'000	\$'000
Measured at fair value through profit and loss				
Commodity derivatives	-	-	-	17,242
Foreign exchange derivatives	2,464	-	3,629	-
Interest rate derivatives	-	-	2	-
	2,464	-	3,631	17,242
Measured at fair value through other comprehensive income				
Commodity derivatives - cash flow hedges	93,752	229,476	-	-
Foreign exchange derivatives - cash flow hedges	-	6,650	-	-
	93,752	236,126	-	-
Total	96,216	236,126	3,631	17,242

NEO Energy Group Limited

Notes to the financial statements for the year ended 31 December 2021

Non-current derivative assets and liabilities

	2021		2020	
	Assets	Liabilities	Assets	Liabilities
	\$'000	\$'000	\$'000	\$'000
Measured at fair value through profit and loss				
Commodity derivatives	3,953	-	-	-
Foreign exchange derivatives	-	-	10,249	-
Interest rate derivatives	-	-	-	-
	3,953	-	10,249	-
Measured at fair value through other comprehensive income				
Commodity derivatives - cash flow hedges	-	9,968	-	-
Foreign exchange derivatives - cash flow hedges	-	6,964	-	-
	-	16,932	-	-
Total	3,953	16,932	10,249	-

The following amounts were recognised in profit or loss in relation to derivatives:

	2021	2020
	\$'000	\$'000
Realised hedging losses through revenue	(113,248)	-
Net realised gain through other operating gains	-	57,441
Premiums paid in other operating gains	-	(13,043)
Net realised gain through finance costs	3,352	-
Premiums paid through finance costs	(26,240)	-
Unrealised gains through other operating costs	-	885
Unrealised gains through finance costs	5,827	-
	(130,309)	45,283
Unrealised losses through other comprehensive income	(216,113)	-
	(346,422)	45,283

Recognised fair value measurements

Derivative financial instruments are initially recognised and subsequently re-measured at fair value. They have been classified in accordance with the hierarchy described in IFRS 13 'Fair value measurement'.

The fair value hierarchy described below reflects the significance of the inputs used to determine the valuation of assets and liabilities measured at fair value.

Specific valuation techniques used to value financial instruments include the use of dealer quotes for similar instruments.

Level 1: The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are level 1.

Level 2: The fair value of financial instruments that are not traded in an active market is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument is observable, the instrument is level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is level 3.

There were no transfers between levels 1, 2 or 3 for recurring fair value measurements during the year.

NEO Energy Group Limited

Notes to the financial statements for the year ended 31 December 2021

Cash flow hedge accounting

The Group 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 Group's hedging reserves disclosed in the balance sheet relate to the following instruments

	Cash Flow Hedge Reserve \$'000
At 1 January 2021	-
Commodity options / swaps - oil	(11,738)
Commodity options / swaps - gas	(190,762)
Forward foreign exchange contracts	(13,613)
At 31 December 2021 (pre-tax)	(216,113)
Less: deferred tax	89,655
At 31 December 2021	(126,458)

The below table indicates the volumes, average hedged price and timings associated with the Group's financial commodity derivatives.

Position as at 31 December 2021	2022	2023
Oil volume hedged (thousand bbls)	5,844	1,520
Weighted average hedged price (\$/bbl)	45.34	45.00
Weighted average floor (\$/bbl)	44.87	-
Weighted average ceiling (\$/bbl)	76.45	-
Gas volume hedged (million therms)	530	5
Weighted average hedged price (p/therm)	112p	75p
Weighted average floor (p/therm)	58p	50p
Weighted average ceiling (p/therm)	99p	98p

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 2021, the fair value of net financial commodity derivatives designated as cash flow hedges was \$156.9 million (2020: nil) and net unrealised pre-tax losses of \$216.1 million (2020: nil) 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 2021, net deferred pre-tax losses of \$142.4 million (2020: nil) are expected to be released to the income statement within one year.

NEO Energy Group Limited

Notes to the financial statements for the year ended 31 December 2021

23 Financial risk factor and risk management

Market risk

Market risk primarily comprises: a. commodity price risk b. foreign exchange risk and c. cash flow interest rate risk.

i) Commodity price risk

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

The change in the fair value of these commodity price derivatives of \$17.1 million gain (2020: \$13.0 million loss) has been recognised in the income statement during the year. During the year \$113.2 million of net realised hedge losses were also recognised within revenue in the income statement

The impact on the post-tax profit for the year of a 10% movement in oil and gas prices, which would directly flow to revenue, would be an increase or decrease of \$98.8 million (2020: \$22.1 million).

ii) Foreign exchange risk

Instruments used by the Group

The Group 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 Group 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 of highly probable forecast operating and capital costs.

The resulting \$2.5 million (2020: \$13.9 million) fair value of these contracts has been recognised in the statement of financial position as trade and other receivables of \$2.5 million (2020: \$3.6 million). The maximum credit exposure of these derivative assets is the carrying value. The Group mitigates this risk by entering into transactions with long-standing, reputable counterparties and partners.

The change in the fair value of these price derivatives of \$11.4 million loss (2020: gain \$13.9 million) has been recognised in the income statement during the year.

iii) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from long-term borrowings issued at variable rates and exposing the Group to cash flow interest rate risk. As at 31 December 2021, the Group had an interest rate hedge in place for circa 50% of the outstanding borrowing (RBL) exposure to 2021. 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 \$1.1 million (2020: \$0.4 million).

Credit risk

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.

NEO Energy Group Limited

Notes to the financial statements for the year ended 31 December 2021

ii) Impairment of financial assets

The Group 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 Group trade debtors balance of \$4.5 million as at 31 December 2021 was nil and therefore no adjustment has been applied.

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 2021, the Company had intercompany receivable balances due from NEO Energy Upstream UK Limited (\$286.7 million before applying the credit loss) and NEO Energy SNS Limited (\$40.8 million before applying the credit loss). In line with the requirements of IFRS 9, 'Financial Instruments' management calculated an expected credit loss of \$0.7 million, which is carried in the 2021 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

<i>Group</i>	Amortised value \$'000	Fair value through profit and loss \$'000	Fair value through OCI \$'000	Total \$'000
At 31 December 2021				
Assets as per balance sheet				
Trade receivables (excl. prepayments) (Note 16)	420,773	-	-	420,773
Cash and cash equivalents (Note 17)	292,028	-	-	292,028
Derivative financial instruments (Note 22)	-	2,464	93,752	96,216
Total	712,801	2,464	93,752	809,017
		Less than 3 months \$'000	3 to 12 months \$'000	Total \$'000
At 31 December 2021				
Trade receivables (excl. prepayments) (Note 16)		420,773	-	420,773
Cash and cash equivalents (Note 17)		292,028	-	292,028
Derivative financial instruments (Note 22)		57,953	38,263	96,216

NEO Energy Group Limited

Notes to the financial statements for the year ended 31 December 2021

<i>Group</i>	Amortised value \$'000	Fair value through profit and loss \$'000	Fair value through OCI \$'000	Total \$'000
At 31 December 2020				
Assets as per balance sheet				
Trade receivables (excl. prepayments) (Note 16)	55,655	-	-	55,655
Cash and cash equivalents (Note 17)	73,601	-	-	73,601
Derivative financial instruments (Note 22)	-	3,629	-	3,629
Total	182,081	3,629	-	182,081
		Less than 3 months \$'000	3 to 12 months \$'000	Total \$'000
At 31 December 2020				
Trade receivables (excl. prepayments) (Note 16)		55,655	-	55,655
Cash and cash equivalents (Note 17)		73,601	-	73,601
Derivative financial instruments (Note 22)		1,195	2,434	3,629

iii) Liquidity risk

Liquidity risk relates to the need to maintain sufficient cash and cash equivalents and undrawn borrowing facilities for the Group to continue to meet its cash and funding requirements as they fall due. The Group closely monitors its funding requirements in conjunction with its ultimate parent controlling undertaking, HitecVision VI, LP and HitecVision VII, LP. Securing appropriate funding is a key element of project appraisal.

Financial liabilities by category

The tables below analyse the Group'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.

Group	Financial liabilities at amortised cost \$'000	Fair value through profit and loss \$'000	Fair value through OCI \$'000	Total \$'000
At 31 December 2021				
Liabilities as per balance sheet				
Trade payables (excl. accruals) (Note 18)	181,441	-	-	181,441
Bank loan (Note 19)	1,367,447	-	-	1,367,447
Lease liabilities (Note 15)	11,436	-	-	11,436
Derivative financial instruments (Note 22)	-	-	236,126	236,126
Total	1,560,324	-	236,126	1,796,450

	Less than 3 months \$'000	3 to 12 months \$'000	1 to 2 years \$'000	2 to 10 years \$'000	Total \$'000
Liabilities as per balance sheet					
Trade payables (excl. accruals) (Note 18)	181,441	-	-	-	181,441
Derivative financial instruments (Note 22)	128,613	107,513	-	-	236,126
Lease liabilities (Note 15)	211	635	1,721	8,869	11,436
Bank loan (Note 19)	-	-	-	1,367,447	1,367,447

NEO Energy Group Limited

Notes to the financial statements for the year ended 31 December 2021

Group	Financial liabilities at amortised cost		Fair value through profit and loss	Fair value through OCI	Total
At 31 December 2020	\$'000		\$'000	\$'000	\$'000
Liabilities as per balance sheet					
Trade payables (excl. accruals) (Note 18)	45,904		-	-	45,904
Bank loan (Note 19)	305,025		-	-	305,025
Lease liabilities (Note 15)	2,562		-	-	2,562
Derivative financial instruments (Note 22)	-		17,242	-	17,242
Total	353,491		17,242	-	370,733
	Less than 3 months	3 to 12 months	1 to 2 years	2 to 10 years	Total
Contractual maturities of financial liabilities as per balance sheet	\$'000	\$'000	\$'000	\$'000	\$'000
Trade payables (excl. accruals) (Note 18)	45,904	-	-	-	45,904
Bank loan (Note 19)	-	74,823	78,537	151,665	305,025
Lease liabilities (Note 15)	32	95	663	1,772	2,562
Derivative financial instruments (Note 22)	-	17,242	-	-	17,242

The financial assets and liabilities of the Group and Company are denominated in United States dollars and Great Britain pounds.

Capital risk management

The Group manages its capital to ensure that entities in the Group 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 Group 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 Group 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:

	Group 2021 \$'000	Group 2020 \$'000
Total borrowings	1,367,447	305,025
Less: cash and short-term deposits	(292,028)	(73,601)
Net debt	1,075,419	231,424
Equity	909,906	321,005
Capital and net debt	1,985,325	552,429
Gearing ratio	54%	42%

Gearing ratio represents net debt divided by capital and net debt.

Loan covenants

Under the terms of the major borrowing facilities, the Group is required to comply with the following financial covenants:

- Net debt/EBITDAX cover ratio below 3.5x. The financial covenant is tested on a biannual basis.

NEO Energy Group Limited

Notes to the financial statements for the year ended 31 December 2021

24 Share capital

Group and Company

Number	2021	2020
Authorised, allotted, called up and fully paid		
Common shares of £0.000298 each	67,010,634	54,225,647
Preference shares of £0.000031 each	737,721,622	488,030,823
Total	804,732,256	542,256,470

Value	2021 \$'000	2020 \$'000
Authorised, allotted, called up and fully paid		
Common shares of £0.000298 each	30	26
Preference shares of £0.000031 each	36	24
Total	66	50

During 2021, 12,784,987 common shares and 249,690,799 preference shares were allotted as part of equity injection by NEO Energy Holding Limited, for a total consideration of \$277.4 million. Amount disclosed for issue of share capital in the Consolidated statement of cash flow is the net amount of share capital issue of \$277.4m and the novated loan repayment to ultimate parent by the Group of \$191.2m. Common shares were issued at \$2.17 per share and preference shares were issued at \$1.00 per share.

A summary of share movement is shown below:

Number	Common shares	Preference shares
At 1 January 2021	54,225,647	488,030,823
Allotment of shares	12,784,987	249,690,799
At 31 December 2021	67,010,634	737,721,622

In 2020, all existing categories of ordinary shares were changed to common, and all existing categories of preference shares were changed to preference. There was a subdivision of common and preference shares, along with a variation of rights attached to the shares.

Both common and preference carry voting rights in the Company. In addition, the preference shares are entitled to a dividend of 8% per year which is payable if and when declared by a shareholders' meeting. Both common and preference shares are redeemable by the Group by resolution of the Shareholders.

25 Share premium

Group and Company

	\$'000
At 1 January 2020	174,024
Premium on issue of shares (Note 24)	96,479
At 31 December 2020	270,503
Premium on issue of shares (Note 24)	277,417
At 31 December 2021	547,920

NEO Energy Group Limited

Notes to the financial statements for the year ended 31 December 2021

26 Capital reorganisation

	Group \$'000	Company \$'000
At 31 December 2021 and 31 December 2020	(40,024)	1,028

During 2015 and 2016 the Company repurchased a number of shares and also passed a resolution to reduce share premium to allow the company to buy the shares, resulting in the balance on the capital reorganisation account.

27 Currency translation reserve

	Group \$'000	Company \$'000
At 1 January 2021	(906)	(18,839)
Movement in the year	(17,981)	-
At 31 December 2021	(18,887)	(18,839)

Following the acquisition of Zennor, the Group consolidated in its USD denominated Group result, four GBP denominated subsidiaries. This has resulted in a movement in the currency translation reserve during the year.

28 Retained earnings

	Group \$'000	Company \$'000
At 1 January 2020	134,093	9,128
(Loss) / profit for the financial year	(42,711)	316
At 31 December 2020	91,382	9,444
Profit / (loss) for the financial year	455,907	(708)
At 31 December 2021	547,289	8,736

29 (a) Net cash from operating activities

	Note	2021 \$'000	2020 \$'000
Operating profit / (loss)		626,346	(54,732)
Adjustments to reconcile loss to net cash from operating activities:			
Depletion, depreciation and amortisation	15	219,372	89,694
Impairment expense	15	-	29,835
Loss on disposal	7	(7,367)	(4,208)
Excess of fair value over cost of acquisition	7	(331,193)	-
Fair value changes in contingent consideration	7	63,098	-
Asset write off		7,671	639
Utilisation of provision		(4,835)	(222)
Operating cashflows before movement in working capital		573,092	61,006
Increase in trade and other receivables		(330,333)	(17,393)
Increase in trade and other payables		207,267	82,927
Decrease in provision		(12,662)	-
Decrease in stock		2,157	355
Net working capital from acquisitions		91,859	38,297
Increase in derivative financial asset		(86,278)	(13,878)
Increase in derivative financial liability		54,863	17,708
Cash generated from operating activities		499,965	169,022

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Notes to the financial statements for the year ended 31 December 2021

29 (b) Net debt reconciliation

Group

	2021	2020
	\$'000	\$'000
Cash and cash equivalents (Note 17)	292,028	73,601
Loans and other borrowings (Note 19)	(1,403,000)	(317,192)
Lease liability (Note 15)	(11,436)	(2,562)
Net debt	(1,122,408)	(246,153)

	Loans	Leases	Sub-Total	Cash and cash equivalents	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Net debt at 1 January 2020	(257,982)	(839)	(258,821)	134,176	(124,645)
Repayment of loans and leases	291,150	41	291,191	(60,575)	230,616
New leases (Note 15)	-	(1,764)	(1,764)	-	(1,764)
Drawdown of loan facility	(350,360)	-	(350,360)	-	(350,360)
Net debt at 31 December 2020	(317,192)	(2,562)	(319,754)	73,601	(246,153)
Repayment of loans and leases	68,889	435	69,324	-	69,324
Net increase in cash	-	-	-	218,427	218,427
New leases (Note 15)	-	(9,309)	(9,309)	-	(9,309)
Drawdown of loan facility	(1,154,697)	-	(1,154,697)	-	(1,154,697)
Interest expense	(19,898)	-	(19,898)	-	(19,898)
Interest payments (presented as operating cash flows)	19,898	-	19,898	-	19,898
Net debt at 31 December 2021	(1,403,000)	(11,436)	(1,414,436)	292,028	(1,122,408)

30 Related parties - Company

The outstanding balances at 31 December 2021 and 31 December 2020 were as follows:

	2021	2020
Company Name	\$'000	\$'000
NEO Energy Upstream UK Limited	286,693	179,098
NEO Energy SNS Limited	40,903	40,772
NEO Energy CNS Limited	2	-
NEO Energy Production Limited	4	-
NEO Energy Exploration Limited	28	28
NEO Energy Enterprises Limited	1	-
NEO Energy (North Sea) Limited	(2,214)	(2,214)
NEO Energy Production UK Limited	95	95
NEO Energy (UKCS) Limited	58	-
NEO Energy Holding Limited	(27)	-
Total	325,543	217,779

At 31 December 2021, the balance of \$286.7 million (2020: \$179.1 million) was due from NEO Energy Upstream UK Limited, an immediate subsidiary Company, which is in respect of funds advanced to allow the subsidiary to fund investment activities.

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Notes to the financial statements for the year ended 31 December 2021

Group and Company – transactions with immediate parent Company NEO Energy Holding Limited

The shares issued on 12 July 2021, comprising 12,582,071 common shares of £0.000298 each and 249,045,969 preference shares of £0.000031 each, were issued at \$2.17 for the common shares and \$1 per share for the preference shares and purchased by NEO Energy Holding Limited.

On 26 November 2021, NEO Energy Holding Limited made a payment on behalf of NEO Energy Upstream UK Limited the deposit of \$39.0 million for the acquisition of JX Nippon Exploration and Production (U.K.) Limited which completed on 29 March 2022.

Group and Company – transactions with immediate parent Company and key management personnel

The shares issued on 12 July 2021, comprising 202,916 common shares of £0.000298 each and 644,830 preference shares of £0.000031 each, were issued at \$2.17 for the common shares and \$1 per share for the preference shares and purchased by key management personnel.

Remuneration of key management personnel (including directors)

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including the Directors of the Group. Some directors received remuneration in respect of their services to the Group during the year (Note 8).

Key management personnel also include the directors and leadership team who received total remuneration of \$5.1 million (2020: \$4.4 million) during the year. It comprises compensation for loss of office \$0.4 million (2020: \$1.1 million) and short-term employee benefits \$4.3 million (2020: \$3.3 million).

NEO Energy Group Limited

Notes to the financial statements for the year ended 31 December 2021

31 Licence portfolio

The Group's licence interests on the UK continental shelf as at 31 December 2021 are as follows:

Current licences					
Licence	Block	Area	Operator	Interest	Asset
P11 **	29/10a, 30/6a	Rest of block	Shell PLC	50.00%	Stella
P12 **	29/3c, 29/8a, 29/3a	All	Shell PLC	72.00%	Fram, Starling
P12 **	22/30a	Aragorn area	Shell PLC	46.67%	Merganser
P12 **	22/30a	Marlene area	Shell PLC	35.00%	Merganser
P12 **	22/30a	Rest of block	Shell PLC	50.00%	Scoter
P13 **	21/25b, 21/30b, 21/30d, 22/21a, 22/21b, 22/26a	All	Shell PLC	50.00%	Gannet Cluster
P59 *	22/20a, 22/20d, 23/16a	Mungo area, Monan area	BP Exploration	12.65%	Mungo & Monan
P84 **	22/6a	Brimmond And Forties Unit	Apache Corporation	2.86%	Forties
P84 **	22/6a	Rest of block excluding Brimmond	NEO Energy Group	100.00%	Forties
P90	9/15a	Area C above the base cretaceous unconformity	NEO Energy Group	100.00%	Boa
P188 **	22/30b	Area A - Elgin field	TotalEnergies Upstream UK Limited	4.38%	Elgin-Franklin
P188 **	22/30b	Area B - Rest of block	Shell PLC	44.50%	Shearwater
P201 *	211/22c	Causeway Development 1 And 2	Ithaca Energy	35.50%	Causeway
P201 *	211/22a	Contender Area	Taq Europa B.V.	40.00%	Cormorant East
P213	16/26a	Area A - Alba field area, Area C - Above 10,000 feet	Ithaca Energy	17.00%	Alba
P213 *	16/26a	Area B - Britannia field area	Ithaca Energy	12.05%	Britannia
P218	15/21a	Scott field, Telford field Area	CNOOC International	10.83%	Scott, Telford
P233 **	22/23b	All	Shell PLC	50.00%	Madoes
P255	30/19a	All	NEO Energy Group	100.00%	Affleck
P255 *	22/6c, 22/6s	All	Apache Corporation	20.00%	Bacchus
P255 **	22/6s	South	Shell PLC	50.00%	Nelson
P255 **	22/6s	North	Apache Corporation	20.00%	North of Nelson
P295 **	16/8a	All	Shell PLC	50.00%	Kingfisher
P296 **	211/13a, 211/14a	Penguin B area	Shell PLC	50.00%	Penguins
P300	14/26a	Rest of block	CNOOC International	31.56%	Golden Eagle
P324	14/20b	Rest of block	Repsol Sinopec Resources	50.00%	Duart
P345 *	16/27b	Britannia field	Ithaca Energy	24.76%	Britannia
P362 **	29/5b	All	TotalEnergies Upstream UK Limited	4.38%	Elgin-Franklin
P456	48/2a	All	NEO Energy Group	60.00%	Babbage

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Notes to the financial statements for the year ended 31 December 2021

P472	210/24a	Rest of block	Dana Petroleum (E&P)	23.08%	Western Isles
P598 **	22/25b	All	Shell PLC	50.00%	Mirren
P631	9/15b	All	NEO Energy Group	100.00%	Boa
P666 **	22/30c, 29/5c	All	TotalEnergies Upstream UK Limited	4.38%	Elgin-Franklin
P735	15/20b	All	NEO Energy Group	100.00%	GPIII
P886 **	22/28d	All	Shell PLC	50.00%	Madoes
P928	20/1a	North area of the block	CNOOC International	31.56%	Golden Eagle
P1041	15/20a	All	NEO Energy Group	100.00%	GPIII
P1117 **	29/2b	All	Shell PLC	50.00%	West of Starling
P1293	14/18b	All	Ithaca Energy	15.00%	Athena
P1383 *	211/23d	All	Ithaca Energy	35.50%	Causeway
P1464	15/20c	All	NEO Energy Group	100.00%	GPIII
P1664 **	29/4c, 29/9c	All	Shell PLC	50.00%	Fram
P1807 **	22/30e	All	Shell PLC	44.50%	Shearwater
P2013 *	21/5c, 21/5d	All	NEO Energy Group	100.00%	Finlaggan
P2340 **	211/8	All	Shell PLC	50.00%	Penguins
P2349	210/24e	All	Dana Petroleum (E&P)	23.08%	Western Isles
P2350 *	15/29c, 21/2d, 21/3c, 21/3d, 21/4c	All	NEO Energy Group	100.00%	Leverett/Greenwell
P2397 *	30/1e, 30/2e	All	No Operator	45.00%	Courageous
P2400 *	30/12c, 30/13c, 30/17h, 30/18c	All	No Operator	30.00%	Skerryvore
P2402 *	30/19c	All	No Operator	30.00%	Ruvaal
P2452 **	22/24h	All	BP Exploration	20.00%	Murlach (Skua)
P2495 **	211/13c	All	Shell PLC	50.00%	Penguins
P2520 *	15/24b	All	No Operator	100.00%	Macculloch
P2521 *	15/23d, 15/24a, 15/25d	All	No Operator	35.00%	Bowmore
P2522 *	15/28b, 15/29f	All	No Operator	35.00%	Guideroy
P2523 *	15/30b, 16/26b	All	No Operator	35.00%	Starweb
P2525 *	16/27d	All	No Operator	20.00%	Shirley
P2533 *	21/20b	All	No Operator	50.00%	Christian
P2535 *	21/24d	All	Hibiscus Petroleum	30.00%	Teal West
P2537 *	22/2b	All	No Operator	25.00%	Fay

*Acquired during 2021. On 12 July 2021, acquired independent oil and gas company Zennor Petroleum Limited, which included a portfolio of assets located in the Central and Northern North Sea. (Note 13)

** Acquired during 2021. On 8 December 2021, acquired ExxonMobil CNNS Limited which included a portfolio of non-operated oil and gas assets in the Central and Northern North Sea. (Note 13)

Assets without an appointed operator, were acquired in the 32nd UK licencing round. The appointment of a designated operator is subject to future determination.

NEO Energy Group Limited

Notes to the financial statements for the year ended 31 December 2021

32 Ultimate parent undertaking

As at 31 December 2021 and 31 December 2020 the immediate parent undertaking is NEO Energy Holding Limited, a Company registered in England and Wales.

NEO Energy Group Limited is the smallest and the largest Group to consolidate these financial statements.

As at 31 December 2021 and 31 December 2020, the ultimate parent undertaking and controlling party is HitecVision VI, LP, a Private Equity Fund based in Guernsey. HitecVision VII, LP also holds a non-controlling interest in the Group.

33 Post balance sheet events

On the 29 March 2022, NEO acquired a 100% shareholding in JX Nippon Exploration and Production (U.K.) Limited from JX Nippon Oil & Gas Exploration Corporation via its wholly owned subsidiary NEO Energy Upstream UK Ltd. The consideration was based on an enterprise value of \$1.655 billion, subject to certain interim period and working capital adjustments, and was funded by a combination of cash reserves and increasing borrowing. Associated with the acquisition, the Group secured an amendment to its existing Reserve Based Lending Agreement resulting in an increase in the total facility from \$2,000 million to \$3,500 million.

The Group has considered its supply chain and operational activities in light of the Russia/Ukraine war and do not believe that there will be any impact on the business.

34 2021 European transparency directive disclosure

NEO aims for prompt disclosure and transparency in all tax matters and has met all statutory requirements for this. This includes the disclosures and submissions made to comply with the requirements of the Extractive Industry Transparency Initiative (EITI), Country-by-Country Reporting (CBCR) and the 2014 Reports on Payments to Government Regulations (PTG), which implemented the requirements of the EU's Accountancy and Transparency Directives into UK law.

	Income taxes	Licence fees	Total
Area/company level	\$'000	\$'000	\$'000
Drumtochty	-	196	196
Babbage	-	318	318
Dumbarton	-	344	344
Corporate	-	-	-
Total	-	858	858