PANDION ENERGY

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Interim Financial Statements
(unaudited)

First Quarter 2019

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Introduction

General information

These interim finacial statements for Pandion Energy AS (“the Company“) have been prepared to comply with the **Revolving exploration finance facility agreement dated 13 November, 2017,** the **Borrowing base facility agreement dated 9 April 2018** and **Bond terms for senior unsecured bond dated 3 April 2018**.

These interim financial statements have not been subject to review or audit by independent auditors.

Introduction

PANDION ENERGY

Accounting principles

These interim financial statements have been prepared on the bases of simplified IFRS pursuant to the Norwegian Accounting Act §3-9 and regulations regarding simplified application of IFRS issued by the Norwegian Ministry of Finance on 3 November 2014, thus the interim financial statements do not include all information required by simplified IFRS and should be read in conjunction with the Company annual financial statement as at 31 December 2018.

The interim financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the financial position, results of operations and cash flows for the dates and interim periods presented. Interim period results are not necessarily indicative of results of operations or cash flows for an annual period. In preparing these interim financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

As described in the company's annual financial statements for 2018, one new accounting standard entered into force from 1 January 2019, IFRS 16. Pandion has assessed the impact of IFRS 16 on the interim financial statements and identified the office lease agreement containing a lease after IFRS 16. The impact on the balance sheet is presented on separate balance sheet items. The standard has been implemented without restatement of prior periods` reported figures. Certain aspects by IFRS 16 have until lately been discussed by the IASB and the IFRS interpretations Committee (IFRIC), particularly related to the recognitions of leases entered by operators in the oil and gas industry for the use of joint operations. Two rig contracts in the Company`s partner licenses can potentially be considered as lease after IFRS 16. Pandion has assessed whether the Company is formally the lessee in these agreements and concluded not to formally be the customer, and therefore not considered the rig contracts as a lease for Pandion after IFRS 16. Pandion will reconsider their assessment going forward following potential further review by the IASB and IFRIC and comparison with financial reporting of Pandion`s peers in the oil & gas industry. The two potential contracts would have increased the balance sheet statements by adding lease liabilities of approximately 25 MUSD if the joint arrangements were considered as the lessee in this agreements.

For further detailed information on accounting principles, please refer to the Financial Statements for 2018.

First Quarter 2019 Summary

PANDION ENERGY

Summary

Total revenue was USD 29.4 (27.7 in Q1-18) million, and reported operating profit USD 0.1 (8.6 in Q1-18) million. The lower operating profit in Q1 2019 is mainly due to dry targets in the combined appraisal and exploration well at the Hod field and unrealised loss on oil derivatives accounted as other income. EBITDAX amounted to USD 12.2 (12.1) million. Net profit was USD -6.3 (4.1) million.

The total revenue was driven by revenues related to oil sales from the Valhall and Hod fields, (407 kboe in Q1-19 compared to 372 kboe in Q1-2018). Average realised oil price was USD 64.8 (67.3 in Q1-18) per bbl.

The operating expenses amounted to USD 10.3 (14.4 in Q1-18) million.

Investments in fixed assets amounted to USD 19.7 million, driven by investments in the Valhall field, mainly Flank West development, IP drilling and Flank South Infill Drilling.

The company's interest-bearing debt was USD 157.4 million at the end of the first quarter.

Operational Review

Production from the Valhall and Hod fields was 5.1 (3.8) thousand barrels of oil equivalents per day net to Pandion during first quarter, representing a 16 per cent increase from the previous quarter, driven by ramp-up of production from new wells and continued high production efficiency.

The Valhall IP drilling campaign continued with the G10 well. Valuable core samples and data were gathered on the shallower Miocene play during the drilling of this well. This play may represent a significant development potential. One section of the G11 well was completed with Fishbone technology and successfully put on test production.

The Valhall partnership made a final investment decision for the first phase of the Wellhead Platfrom Production Recovery ("WPPR") project. The WPPR project consists of a water injection test and six infill producers in the Lower Hod formation and represents a continuation of drilling in the Valhall central areas following the successful IP campaign.

The Maersk Invincible rig was deployed to Flank South to drill two infill targets, where the fist target did not find economic volumes. The rig will now drill the second infill target.

During the first quarter a combined appraisal and exploration well was drilled at the Hod field. Both targets were dry. These result will inform future concept work for the Hod Field Development project which is currently in early phase.

The Valhall Flank West development project is progressing as planned. The project is preparing for the upcoming offshore installation campaign this summer and is on schedule for first oil in the fourth quarter.

The production efficiency for the Valhall area was 94.3 (84 in Q1-18) percent in the quarter.

First Quarter 2019 Summary

PANDION ENERGY

Hedging

The Company has focused on securing liquidity and has entered into an extensive oil price hedging program to reduce the risk related to oil prices. At the end of the first quarter Pandion had put in place a hedging programme through 2019 and Q3 2020.

>70% of 2019 volumes hedged at USD 55/bbl.

>90% of 2020 post-tax volumes have been hedged at USD 55/bbl and USD 56/bbl.

The existing hedging program is mainly based on put options. Following the increase in the long term oil prices during Q1 the Company had a unrealised loss from hedging presented as other income.

Statements of income
31 March 2019

PANDION ENERGY

Statements of income

(Amounts in USD`000)	Note	Q1 2019	Q1 2018	2018
Revenues		29 376	27 675	100 588
Other income		-6 836	-582	2 425
Total revenues and income		**22 540**	**27 092**	**103 013**
Operating expenses		-10 317	-14 446	-39 276
General and administrative expense		0	-516	0
Depreciation, amortisation and net impairment losses	1	-4 825	-2 632	-11 551
Exploration expenses		-7 284	-908	-8 854
Total expenses		-22 426	-18 502	-59 681
Profit from operating activities		**114**	**8 591**	**43 332**
Net financial items	7	-6 040	-2 547	-17 650
Profit before income tax		**-5 926**	**6 043**	**25 682**
Income tax		-363	-1 916	-24 137
Net profit		**-6 289**	**4 127**	**1 545**

Statements of income
31 March 2019

PANDION ENERGY

Statements of comprehensive income

(Amounts in USD`000)	**Q1 2019**	**Q1 2018**	**2018**
Net income	-6 289	4 127	1 545
Items that may be subsequently reclassified to the Statement of income			
Net gain/losses arising from hedges recognised in OCI	-369	0	-9 131
Net amount reclassified to profit and loss	-120	0	5 828
Tax on items recognised over OCI	107	0	727
Other comprehensive income	-382	0	-2 577
Total comprehensive income	**-6 671**	**4 127**	**-1 032**

Balance sheet statements
31 March 2019

PANDION ENERGY

Assets

(Amounts in USD`000)	Note	Q1 2019	Q1 2018	2018
Deferred tax assets		0	24 777	0
Goodwill	2,3	124 785	124 785	124 785
Intangible assets	2,3	64 500	55 194	59 110
Property, plant and equipment	1,3	213 720	159 844	198 743
Prepayments and financial receivables		138	152	136
Financial asset at fair value through profit or loss		0	2 401	0
Right-of-use asset		1 095	0	0
Total non-current assets		**404 237**	**367 152**	**382 773**
Inventories		6 228	8 072	6 822
Trade and other receivables		15 804	13 850	9 050
Financial asset at fair value through profit or loss	8	1 239	0	8 075
Tax receivable from exploration refund - short term		10 661	11 476	9 094
Cash and cash equivalents		25 804	10 274	19 133
Total current assets		**59 736**	**43 672**	**52 173**
Total assets		**463 973**	**410 824**	**434 947**

Balance sheet statements
31 March 2019

PANDION ENERGY

Equity and liabilities

(Amounts in NOK`000)	Note	Q1 2019	Q1 2018	2018
Share capital		113 492	110 893	113 492
Other paid in capital		0	4 127	0
Other equity		-10 301	0	-3 631
Total equity	**4**	**103 190**	**115 021**	**109 861**
Deferred tax liability		7 017	0	5 202
Asset retirement obligations	5	152 312	136 423	153 994
Borrowings	6	135 040	0	116 349
Hedging derivatives		8 457	0	8 499
Long term lease debt		984	0	0
Total non-current liabilities		**303 809**	**136 423**	**284 045**
Asset retirement obligations - Short term	5	10 778	39 000	9 567
Trade, other payables and provisions		31 054	13 318	25 499
Borrowings - Short term	6	15 041	12 386	5 975
Liabilities to related parties		0	94 677	0
Short term lease debt		101	0	0
Total current liabilities		**56 974**	**159 381**	**41 041**
Total liabilities		**360 783**	**295 804**	**325 086**
Total equity and liabilities		**463 973**	**410 824**	**434 947**

Statements of cash flow
31 March 2019

(Amounts in USD`000)	Note	Q1 2019	Q1 2018	2018
Income before tax		(5 926)	6 044	25 682
Depreciation, amortisation and net impairment losses	1	4 825	2 632	11 588
Expensed capitalised exploration expenses	2	5 877	-	1 777
Accretion of asset removal liability	5,7	1 520	1 737	6 462
(Increase) decrease in value of financial asset at fair value through profit or loss	8	6 836	582	(2 425)
(Increase) decrease in value of hedges reclassified to profit and loss		(43)	-	-
(Increase) decrease operational financial asset	8	-	(2 983)	(5 650)
Asset removal cost	5	(1 992)	(8 512)	(25 415)
Net financial expenses		4 520	-	11 188
Interest and fees paid		(2 722)	-	(11 647)
(Increase) decrease in working capital		(2 111)	(11 235)	6 143
Tax payable received (Paid)		-	-	10 468
Net cash flow from operating activities		**10 784**	**(11 735)**	**28 171**
Capital expenditures and investments in furniture, fixtures and office machines	1	(86)	-	(19)
Capital expenditures and investments in oil and gas assets	1	(19 730)	(7 337)	(51 965)
Capital expenditures and investments in exploration and evaluation assets	2	(11 268)	(1 920)	(10 504)
Net cash flow from investing activities		**(31 084)**	**(9 257)**	**(62 486)**
Share capital contribution	4	-	40 982	-
Increase interest bearing obligations, loans and borrowing		26 971	6 768	149 553
Decrease interest bearing obligations, loans and borrowing		-	(25 451)	(105 070)
Net cash flow from financing activities		**26 971**	**22 299**	**44 483**
Net change in cash and cash equivalents		6 671	1 307	10 167
Cash and cash equivalents at the beginning of the period		19 133	8 965	8 965
Cash and cash equivalents at the end of the period		**25 804**	**10 273**	**19 133**

Notes to the interim financial statements

PANDION ENERGY

NOTE 1 PROPERTY, PLANT AND EQUIPMENT

(Amounts in USD`000)	Oil and gas assets	Tools and equipment	Total
Carrying amount at 31 December 2017	**129 815**	**86**	**129 901**
Additions	51 965	19	51 983
Asset removal obligation - Change of estimate	316	-	316
Transfers	28 130	-	28 130
Depreciation	11 551	37	11 588
Carrying amount at 31 December 2018	**198 675**	**68**	**198 743**
Additions	19 730	86	19 816
Carrying amount at 31 March 2019	218 405	154	218 559
Depreciation	4 825	15	4 840
Accumulated depreciation at 31 March 2019	4 825	15	4 840
Carrying amount at 31 March 2019 2018	**213 580**	**139**	**213 720**
Estimated useful lives (years)	UoP	3-10	

Production plants oil and gas are depreciated according to unit of production method (UoP)

Notes to the interim financial statements

NOTE 2 INTANGIBLE ASSETS

(Amounts in USD`000)	Goodwill	Exploration and evaluation assets	Total
Carrying amount at 31 December 2017	**124 785**	**78 513**	**203 298**
Acquisition		151	151
Capitalised license costs	-	10 353	10 353
Expensed exploration expenditures previously capitalized	-	(1 777)	(1 777)
Transfers	-	(28 130)	(28 130)
Carrying amount at 31 December 2018	**124 785**	**59 110**	**183 895**
Acquisition		-	-
Capitalised license costs	-	11 268	11 268
Expensed exploration expenditures previously capitalized	-	(5 877)	(5 877)
Transfers	-	-	-
Carrying amount at 31 March 2019	**124 785**	**64 500**	**189 285**

The amount of Goodwill entirely relates to the acquisition of interest in the Valhall and Hod oil fields.
Expensed exploration expenditures previously capitalized is mainly related to dry targets in the combined appraisal and exploration well at the Hod field.

NOTE 3 IMPAIRMENTS

Impairment tests of individual cash-generating units are performed when impairment triggers are identified, and for goodwill impairment is tested annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.
No impairment indicators have been identified at the end of first quarter 2019.

Notes to the interim financial statements

PANDION ENERGY

NOTE 4 EQUITY AND SHAREHOLDERS

(Amounts in USD`000)

	Share Capital	Other paid in capital	Other equity	Total equity
Shareholders' equity at 31 December 2017	**21 258**	**51 251**	**(2 599)**	**69 910**
Share issue - unregistered in 2017	51 251	(51 251)		-
Share issue	40 982	-	-	**40 982**
Comprehensive income	-	-	(1 032)	**(1 032)**
Shareholders' equity at 31 December 2018	**113 492**	**-**	**(3 631)**	**109 861**
Share issue	-	-	-	-
Comprehensive income	-	-	(6 671)	**(6 671)**
Shareholders' equity at 31 March 2019	**113 492**	**-**	**(10 301)**	**103 190**

Share capital of NOK 911 921 294 comprised 911 921 294 shares at a nominal value of NOK 1,00.

A Subscription and Investment Agreement between Pandion Energy and Kerogen has been executed for 190 USD million in equity, of which 109 USD million (889,4 NOK million) has been injected as of 30 June 2018 in addition to 3 USD million (22,5 NOK million) from the management team of Pandion Energy.

The capital of 190 USD million is committed to Pandion Energy and can be drawn upon approval of the Board of Directors of the Company. Kerogen has further a right, however not an obligation to provide additional funds in an amount up to 110 USD million, resulting in an aggregate funding up to 300 USD million.

In 2018 Pandion Energy Holding AS was established and all shares in Pandion Energy AS were transferred to Pandion Energy Holding AS. Pandion Energy Holding AS owns all 911 921 294 shares as at 31 December 2018. The Company is included in the consolidated financial statements of the parent company Pandion Energy Holding AS. The consolidated financial statements of Pandion Energy Holding AS can be obtained at the company's registered address Lilleakerveien 8, 0283 Oslo.

Notes to the interim financial statements

PANDION ENERGY

NOTE 5 ASSET RETIREMENT OBLIGATIONS

		Asset retirement obligations
(Amounts in USD`000)		
Asset retirement obligations at 31 December 2017		**182 198**
Effects of change in estimates		316
Amounts charged against asset retirement obligations		(25 415)
Accretion expenses		6 462
Reclassification and transfer		-
Currency translation		-
Asset retirement obligations at 31 December 2018		**163 561**
Non-current portion at 31 December 2018	*153 994*	
Current portion at 31 December 2018	*9 567*	
Total	*163 561*	
Amounts charged against asset retirement obligations		(1 992)
Accretion expenses		1 520
Reclassification and transfer		-
Currency translation		-
Asset retirement obligations at 31 March 2019		**163 089**
Non-current portion 31 March 2019	*152 312*	
Current portion 31 March 2019	*10 778*	
Total	*163 089*	

The calculations assume an inflation rate of 2.0 per cent and a nominal rate before tax of 4.0 per cent.

Notes to the interim financial statements

NOTE 6 BORROWINGS

Revolving Exploration Loan Facility

	Facility currency	Utilised amount	Undrawn facility	Interest	Maturity	Carrying amount
(Amounts in USD'000)						
At 31 March 2019	NOK	15 291	31 236	NIBOR + 1.25 %	Dec 2019	15 041
At 31 December 2018	NOK	6 236	39 802	NIBOR + 1.25 %	Dec 2019	5 975

The total credit limit for the Company at 31 March 2019 was TNOK 400 000.

The Company signed a Revolving Exploration Finance Facility Agreement on 13 November 2017 of TNOK 400 000. The facility is made available through the banks SEB and BNP Paribas, with SEB as lead manager. The availability period of the facility has been extended up to and including 31 December 2019.

Unsecured Bond

	Facility currency	Utilised amount	Undrawn facility	Interest	Maturity	Carrying amount
(Amounts in USD'000)						
At 31 March 2019	NOK	50 967	-	10.61%	April 2023	45 634
At 31 December 2018	NOK	50 967	-	10.61%	April 2023	45 089

The bond is an unsecured bond of 400 million NOK and runs from April 2018 to April 2023. Utilised amount in USD reflects the exchange rate at the inception date for the bond. The bond has been swapped into USD using a cross currency swap, removing all foreign exchange risk both on coupons and notional. The interest payments have been fixed using an interest rate swap. The fixed all in rate after the swaps is 10.61%. The bond has similar covenants as the RBL facility.

Notes to the interim financial statements

NOTE 6 BORROWINGS (cont)

Reserve Base Lending Facility Agreement (RBL)

(Amounts in USD'000)	Facility currency	Utilised amount	Undrawn facility	Interest	Maturity	Carrying amount
At 31 March 2019	USD	91 100	58 900	LIBOR + 3.5%	April 2025	88 406
At 31 December 2018	USD	73 100	76 900	LIBOR + 3.5%	April 2025	70 261

The RBL facility was established in 2018 and is a senior secured seven-year facility. The facility is at USD 150 million with an additional uncommited accordion option of USD 150 million. The interest rate is from 1-6 months LIBOR plus a margin of 3.5%. In addition a commitment fee is paid for unused credits.

The financial covenants are as follows:

- Net debt to EBITDAX not to exceed 3.5x
- Corporate sources to corporate uses applying a ratio of 1.1 to 1 for the next 12 months period
- Corporate sources to corporate uses applying a ratio of 1 to 1 for the period up to estimated first oil of any development assets
- Minimum cash balance of 10 million USD
- Exploration spending after tax on a yearly basis restricted to the higher of 10 million USD and 10% of EBITDAX unless such spending are funded by new cash equity or subordinated shareholder loan.

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NOTE 6 BORROWINGS (cont)

Non-current Liabillities to related parties

By entering into a subscription agreement with Kerogen Investment no.28 Pandion Energy has agreed to pay a commitment fee as listed below:

	Facility currency	Loan amount
Kerogen Investment no. 28 Limited	USD	1 000

Kerogen Investments no.28 Limited`s rights and claims for such Commitment Fee is subordinated to the rights and claims of all other existing creditors of Pandion.

Maturity profile on total borrowings based on contractual undiscounted cash flows

	Q1 2019	2018
(Amounts in USD`000)		
Less than 12 months	15 291	6 236
1 to 5 years	50 967	50 967
Over 5 years	92 100	74 100
Total	**158 358**	**131 303**

Notes to the interim financial statements

PANDION ENERGY

NOTE 7 FINANCIAL ITEMS

	Q1 2019	Q1 2018	2018
(Amounts in USD`000)			
Net foreign exchange gains (losses)	(358)	470	(874)
Interest income	31	17	165
Amortised loan costs	(216)	(30)	(449)
Accretion expenses	(1 520)	(1 737)	(6 462)
Interest expenses	(3 955)	(1 385)	(8 930)
Other financial items	(22)	118	(1 100)
Net financial items	**(6 040)**	**(2 547)**	**(17 650)**

Notes to the interim financial statements

PANDION ENERGY

NOTE 8 FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

(Amounts in USD`000)	
Financial assets at 31 December 2017	-
New contracts at cost	5 650
Expired contracts at cost	(1 664)
Financial assets at 31 December 2018 before value increase/decrease	3 986
Value increase (decrease)	4 089
Financial assets at 31 December 2018	**8 075**
New contracts at cost	-
Expired contracts at cost	(776)
Financial assets at 31 March 2019 before value increase/decrease	7 299
Unrealized gain/(loss) on oil derivates	(6 057)
Unrealized gain/(loss) on FX derivates	(2)
Financial assets at 31 March 2019	**1 239**

The Company has focused on securing liquidity and has entered into an extensive oil price hedging program to reduce the risk related to oil prices. At the end of the fourth quarter Pandion had put in place a hedging programme through 2019 and Q3 2020.

The existing hedging program is mainly based on put options.

Pandion Energy AS
Postbox 253 Lilleaker
N-0216 Oslo, Norway

Visiting address:
Lilleakerveien 8
N-0283 Oslo, Norway

www.pandionenergy.no

Org. no. 918 175 334