– A SHARP EYE FOR NCS OPPORTUNITIES –

ANNUAL REPORT 2018

PANDION ENERGY

Pandion Energy is a private, full-cycle oil and gas company on the Norwegian Continental Shelf driving value by maturing resources to reserves in high quality assets.

2018

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NXT/A2N

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Terms "the Company" and "Pandion Energy" have been used in this report to refer collectively to Pandion Energy AS.

Content

About Pandion Energy

Pandion Energy AS is a private, full-cycle oil and gas company on the Norwegian Continental Shelf participating in the discovery, appraisal, development and production of oil and gas resources.

Pandion Energy was founded in November 2016 to perform a management buyout of the operational platform and licenses of Tullow Oil Norge AS, previously Spring Energy Norway AS. The Company has taken its name from the Latin name of an osprey, Pandion haliaetus. The Company is based in Oslo.

Pandion Energy's strategy is to be an active and responsible partner in driving value in high quality assets, based on a full-cycle investment mandate. The Company's business model includes participating in the discovery, appraisal, development and production of oil and gas resources with a focus on upsides in and around proven assets with access to existing infrastructure.

As of April 2019, the portfolio comprises a 10 per cent interest in Valhall & Hod producing fields, a 20 per cent interest in the Duva development project, previously known as the Cara discovery, as well as interests in seven exploration licenses.

Pandion Energy will continue to seek attractive growth opportunities through mergers and acquisitions, farm-ins and participation in licensing rounds, and at the same time deliver on the Company's existing portfolio.

Pandion Energy has a team of highly experienced oil and gas professionals with strong and proven subsurface, financial and commercial competence, as well as extensive project execution experience on the NCS.

The Company is backed by Kerogen Capital, an independent private equity fund manager specialising in the international energy sector. Established in 2007, Kerogen manages over USD 2 billion of capital commitments from a blue-chip institutional investor base.

Kerogen Capital's founding team originated from J.P. Morgan's Energy and Natural resources group in Asia. Kerogen Capital's ambition is to invest up to USD 300 million in Pandion Energy.

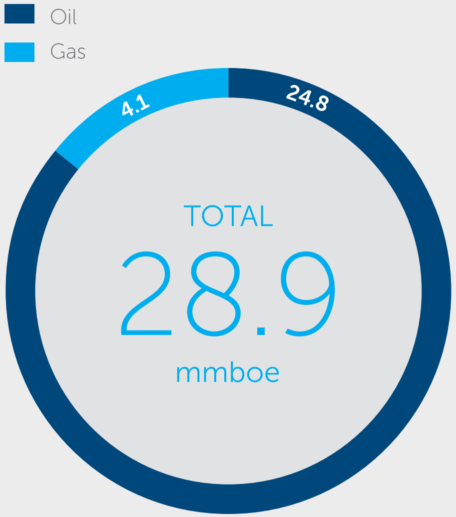
Pandion Energy aims to be recognised as an active and responsible partner.

2P RESERVES PR 01.04.2019

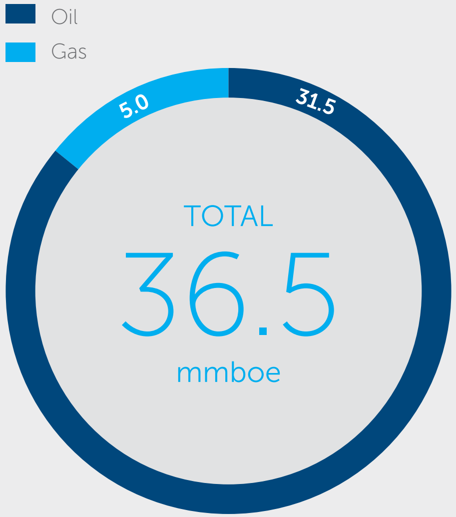
2C RESOURCES PR 01.04.2019

Key figures end 2018

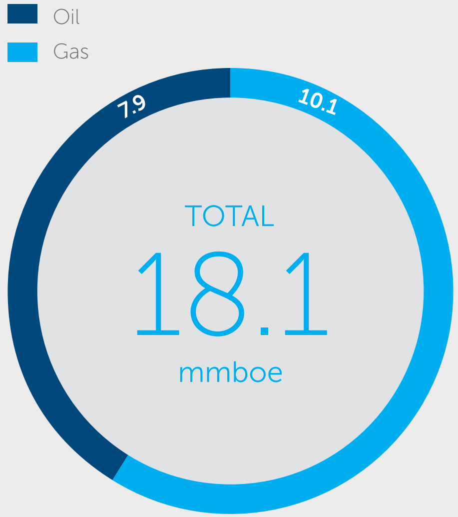
2P RESERVES VALHALL & HOD END 2018



2C RESOURCES VALHALL & HOD END 2018



2C RESOURCES DUVA END 2018



KEY FIGURES

	2018	2017
Production in boepd*	3 998	3 852
Average realised Oil Price (USD)	71.4	-
(Amounts in USD`000)		
Revenues	100 588	-
EBITDAX	63 737	(540)
Total assets	434 947	391 167
Total equity	109 861	69 911
Total interest bearing debt	130 303	5 922

* 2017 production are pro forma, Pandion acquired the Valhall & Hod fields with efffective date 1 January 2017.

History and milestones

2017

June

Pandion Energy prequalified as a licensee on the NCS
Management buyout / asset acquisition including the PL 636 (the Duva development project, formerly known as the Cara discovery)

November

PL 636 DG1 (feasibility sanctioned and volumes increased)
>50% increase in resource estimate

December

Acquisition of 10% in Valhall & Hod fields from Aker BP

Valhall Flank West Plan for development and operation (PDO) submitted

January

Two new licenses awarded in the 2017 APA licencing round on the NCS

February

March

Valhall Flank West PDO approved
Plan for development and operation (PDO) for Valhall Flank West approved by the Norwegian Ministry of Petroleum and Energy

April

Fully financed
USD 150 million reserve based lending (RBL) facility in place

NOK 400 million senior unsecured bond completed

May

Audit by the Petroleum Safety Authority
No non-conformities or improvement points identified

June

2018

July

Acquisition of 10% of PL 820 S in the North Sea from Wintershall
Well planned to be drilled in 2019

August

September

October

NOK 400 million bond loan listed on Nordic ABM

November

December

PL 636 DG2 sanctioned
Decision to Continue (BOV) report submitted to the Ministry of Petroleum and Energy

Acquisition of 30% of PL 842 in the Norwegian Sea from Aker BP
Well planned to be drilled in 2019

Valhall & Hod
Pandion reached average daily production of 5 000 boepd

2019

January

Two new licenses awarded in the 2018 APA licensing round on the NCS

February

Duva FID
Duva (PL 636) Plan for development and operation (PDO) submitted

March

Letter from our CEO

After a flying start in 2017, outperforming our own objectives, 2018 was the year we really established Pandion Energy as a full-cycle oil and gas company. During the year, we expanded our portfolio across all phases from exploration through to production on the Norwegian Continental Shelf and significantly strengthened our team. Besides, we completed our first round of debt financing, establishing a solid financial platform for future growth.

Our business model is to be a full-cycle company, participating in the discovery, appraisal, development, and production of oil and gas resources on the Norwegian Continental Shelf (NCS). We are driving value by maturing resources to reserves in high-quality assets where we see an attractive risk-reward relationship. We are a young company, but our team consists of highly experienced professionals with a solid track record from the oil and gas industry. The team's technical, commercial and financial capabilities combined with their ability to work together as a true team have been instrumental in securing our successful progress to date.

In December 2018, we proudly reached an average daily production of 5,000 barrels per day, less than 12 months after the acquisition of the 10 per cent share of the Valhall & Hod fields from Aker BP. This project has demonstrated our team's capabilities, both in the transaction phase itself, and as an active and responsible partner. The latter was during the year proved by the results from an audit by the Norwegian Petroleum Safety Authority in May 2018. The audit verified that our management system was well structured, covering all phases of the activities we are involved in. In addition, it confirmed that we exercise a practical follow-up of our role as a licensee and that we possess robust competence and capacity.

Duva development project progressing with PDO submission

Another significant milestone was achieved when we, together with our license partners, submitted the development plan for the Duva project, formerly known as the Cara discovery, to the Ministry of Petroleum and Energy in February 2019. We are very excited about this project, where we have worked closely with our partners to find the best solutions, using existing infrastructure and maximising the value of the field. The Cara discovery was the first discovery in our portfolio, and since we acquired the 20 per cent share in this project in 2017, recoverable resources have increased by more than 50 per cent. We expect the Duva field to significantly contribute to the production ramp-up for Pandion Energy in the coming years.

During 2018, we made our first farm-in in an exploration license in the North Sea, as well as our first farm-in in the Norwegian Sea, through the acquisitions of the 10 per cent interest in PL 820S from Wintershall and the 30 per cent interest in PL 842 from Aker BP respectively. Both licenses fit well with our strategy to invest in high-quality exploration opportunities.

We are very pleased to be awarded two additional licenses under the 2018 Norwegian APA (Awards in Predefined Areas) licensing round on the NCS. The annual APA rounds represent important sources to exploration opportunities, and we are proud and excited to be awarded what we consider promising licenses with attractive resource potential.

With the successful completion of our first major debt financing in April 2018, as well as the continuous support from our partner and majority owner, Kerogen Capital, we have created a solid financial platform. Our current capital structure provides us with substantial funding for further investments to fuel our growth.

Digitalisation driving innovation and efficiency

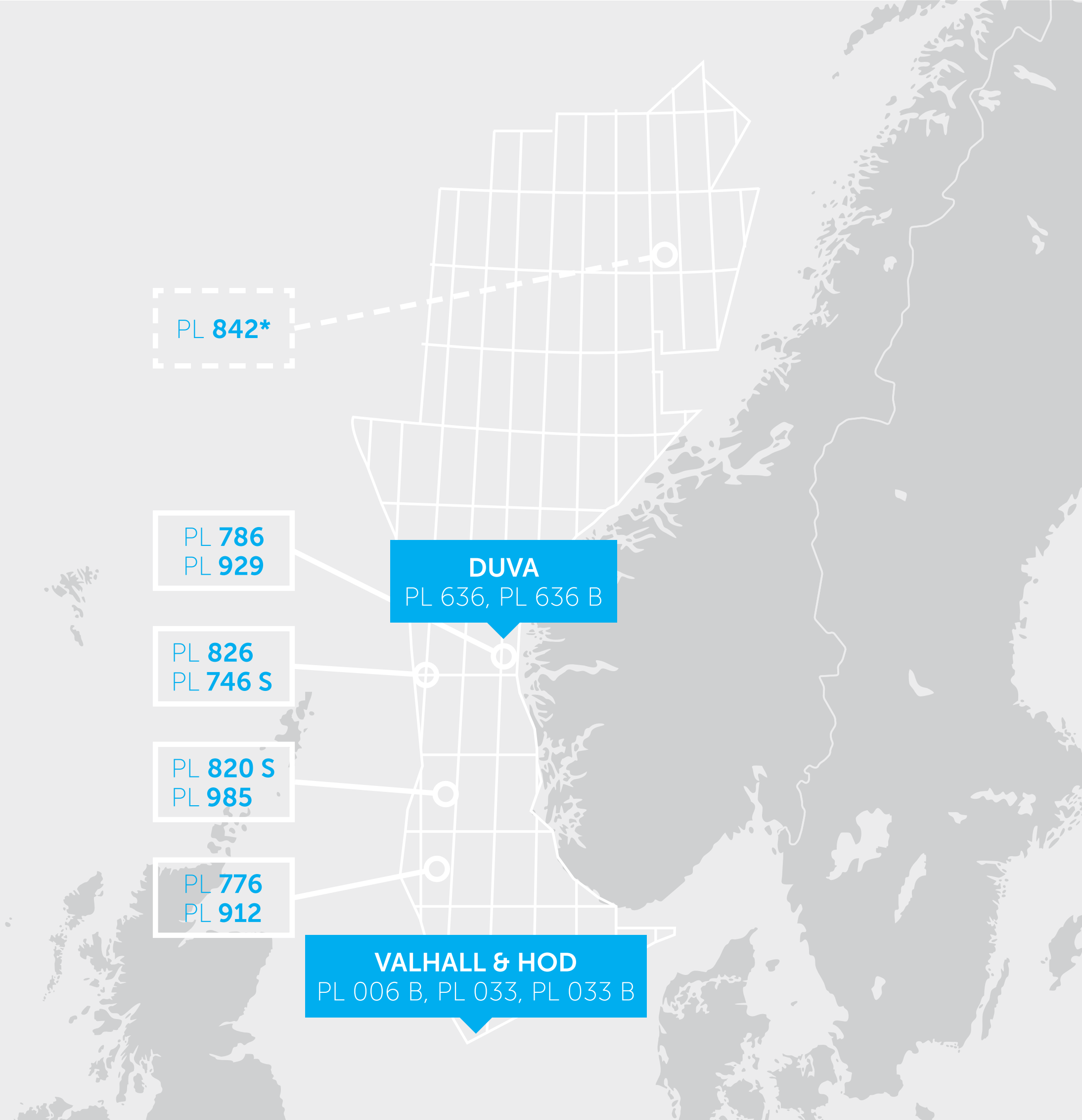
In Pandion Energy, we have recently embarked on the process of digitalisation of our subsurface capabilities through applying new digital solutions to geological and geophysical data. The objective is to drive innovation and enhance efficiency in the exploration for oil and gas on the NCS.

This work has been motivated by Kerogen Capital selecting us as their pilot case for developing an advanced digital subsurface data platform (KAI) as part of their broader digital strategy. As part of the digitalisation effort, we have partnered with Computas and Google, and mobilised a dedicated team comprising machine learning, data science and geoscience experts. Being the first non-operator partnering with Google on the NCS once again proves Pandion Energy as an attractive partner recognised for our subsurface expertise and lean decision-making processes, demonstrated by our rapid growth since inception.

Growing resource-base and production
Looking ahead, our overall strategy of being an active and responsible partner in all phases remains unchanged. Our main priorities are to continue growing our resource base through acquisitions of high-quality assets and new awards, and at the same time deliver on our existing portfolio.

Jan Christian Ellefsen
CEO of Pandion Energy

Asset overview



DUVA

Location	North Sea
Block(s)	36/7
Pandion Energy Interest	20%
Operator	Neptune Energy Norge AS (30%)
Other partners	Idemitsu Petroleum Norge AS (30%) Wellesley Petroleum AS (20%)
Awarded	03.02.2012
Area	281 km²

PL 636 B

Location	North Sea
Block(s)	36/7
Pandion Energy Interest	20%
Operator	Neptune Energy Norge AS (30%)
Other partners	Idemitsu Petroleum Norge AS (30%) Wellesley Petroleum AS (20%)
Awarded	01.03.2019
Area	46 km²

VALHALL & HOD

Location	North Sea
Block(s)	2/8, 2/11
Pandion Energy interest	10%
Operator	Aker BP ASA (90%)
Other partners	-
Production start	Valhall: 1982 / Hod: 1990
Area	231.5 km²

PL 826

Location	North Sea
Block(s)	29/3, 30/1, 33/12
Pandion Energy interest	30%
Operator	Vår Energi AS (40%)
Other partners	Concedo ASA (30%)
Awarded	05.02.2016
Area	15 km²

Relinquised 07.02.2019

Exploration licenses

PL 746 S

Location	North Sea
Block(s)	29/3
Pandion Energy interest	30%
Operator	Vår Energi AS (40%)
Other partners	Concedo ASA (30%)
Awarded	07.02.2014
Area	55 km²

Relinquised 07.02.2019

PL 776

Location	North Sea
Block(s)	16/5, 16/6, 16/8, 16/9
Pandion Energy interest	40%
Operator	Wintershall Norge AS (20%)
Other partners	Concedo ASA (20%) Petoro AS (20%)
Awarded	06.02.2015
Area	665 km²

PL 786

Location	North Sea
Block(s)	31/3, 31/1, 35/12, 36/10
Pandion Energy interest	50%
Operator	Neptune Energy Norge AS (50%)
Other partners	
Awarded	06.02.2015
Area	731.5 km²

PL 820 S

Location	North Sea
Block(s)	25/7, 25/8
Pandion Energy Interest	10%
Operator	MOL Norge AS (40%)
Other partners	Lundin Norway AS (30%) Wintershall Norge AS (20%)
Awarded	05.02.2016
Area	47.5 km²

PL 842*

Location	Norwegian Sea
Block(s)	6608/10, 6608/11, 6608/12
Pandion Energy Interest	30%
Operator	Capricorn Norge AS (40%)
Other partners	Skagen44 AS (30%)
Awarded	05.02.2016
Area	425.4 km²

** Pending government approval*

PL 912

Location	North Sea
Block(s)	16/4, 16/5, 16/7
Pandion Energy interest	30%
Operator	ConocoPhillips Skandinavia AS (40%)
Other partners	Vår Energi AS (30%)
Awarded	02.03.2018
Area	298.2 km²

PL 929

Location	North Sea
Block(s)	35/6, 36/4
Pandion Energy interest	20%
Operator	Neptune Energy Norge AS (40%)
Other partners	DEA Norge AS (20%) DNO Norge AS (20%)
Awarded	02.03.2018
Area	285.7 km²

PL 985

Location	North Sea
Block(s)	25/5, 25/6, 25/8, 25/9
Pandion Energy Interest	20%
Operator	Vår Energi AS (40%)
Other partners	Petoro AS (20%) Aker BP ASA (20%)
Awarded	01.03.2019
Area	502.5 km²

Valhall & Hod fields

Since the production commenced in 1982, the Valhall field continues to be one of the largest oil producing fields in the Norwegian North Sea. In January 2017, the Valhall and Hod fields had produced more than one billion barrels of oil equivalents. This is more than three times the initial expected volume. Aker BP, the operator of the Valhall and Hod fields, has stated an ambition to produce an additional billion barrels of oil equivalents from the area.

The Valhall field is located in the southern part of the Norwegian North Sea. The Valhall field centre consists of six separate steel platforms for living quarters, drilling, production, water injection, and a combined process and hotel platform. Two unmanned and remotely operated flank platforms (North and South) are located about 6 km north and south of the field centre.

The Hod field is developed with an unmanned wellhead platform, located 13 km south of Valhall and is remotely operated from the Valhall field centre. All wells on Hod are currently shut-in, and the Hod reservoir is now produced from wells drilled from the Valhall South Flank platform. Liquids are routed via pipeline to Ekofisk and further to Teesside in the UK. Gas is sent via Norpipe to Emden in Germany.

Increasing production

During 2018, the production efficiency gradually improved, and the production volumes increased through the year. Gross production from Valhall and Hod averaged 39,978 boepd in 2018, up from an average of 38,516 boepd in 2017, driven by the ramp-up of production from new wells. The average production efficiency was 87 per cent in 2018, compared with 86 per cent in 2017.

Two new wells were drilled from the IP platform at the Valhall field centre in 2018. Better technology such as geo-steering enables longer wells and contributes to good economics and better recovery. The wells are part of a drilling programme launched in 2017 comprising seven wells. Another three wells are still to be completed. The operator is also planning a programme for further infill drilling, targeting the Lower Hod formation drilled from the WP platform.

The jack up rig Maersk Invincible successfully drilled a new water injector on Valhall Flank North in November. The reservoir section was 500 metres longer than planned, increasing the recovery potential from the well significantly. The water injector was drilled with glass beads in the mud to achieve an extremely light mud-weight – a technological breakthrough for Valhall. Two Flank North wells which had been closed for over a year for pressure build-up in the north basin, were put back on stream following the successful drilling of the water injection well.

Another production well was drilled at the Valhall Flank North in December, also with a longer reservoir section than planned, increasing the recovery potential from the well significantly.

During the first quarter of 2019, the rig was redeployed to Valhall Flank South for further infill drilling.

Successful plugging operations

Prior to commencing infill drilling at the flank platforms, Maersk Invincible left the Valhall field centre after successfully completing the plug and abandonment programme in the autumn. Since 2017, the rig plugged a total of 14 wells through the Valhall DP platform. The work was done faster than planned, with no harm to people, equipment or the environment – and zero CO_2 and NO_x emissions, as Maersk Invincible was supplied with electricity from shore through the Valhall field during this time. Continuous improvements reduced the average time per well by 50 per cent, despite a rise in the complexity of the wells towards the end of the campaign.

Following the Maersk Invincible departure from the field centre, the Maersk Reacher rig arrived in the fourth quarter, providing additional accommodation capacity to support the high activity at the field.

Preparations are also ongoing for the removal of the QP platform. In the summer 2019, the Allseas vessel Pioneering Spirit will remove the old topsides in one lift.

Valhall Flank West progressing

The Ministry of Petroleum and Energy approved the Plan for Development and Operation (PDO) for the Valhall Flank West development in March. Shortly after, the first steel for the new topsides and jacket was cut at Kværner's yard in Verdal.

The project is targeting the Tor Formation at the western flank of the Valhall field and will be developed from a new unmanned wellhead platform tied back to the Valhall field centre for processing and export. Six wells are planned to be drilled in the summer of 2019. Gross recoverable reserves for Valhall Flank West are estimated to be around 60 million barrels of oil equivalents. Total investments for the development are estimated to NOK 5.5 billion in real terms with a break-even price of USD 28.5 per barrel.

At the end of 2018, both the topsides and the jacket were rising at the yard. Modification work was taking place on the Valhall field centre. One million man-hours had been worked without serious HSE incidents. In January 2019 a successful factory acceptance test was performed of the Valhall Flank West lifeboat, the world's first offshore lifeboat with electric propulsion. The Valhall Flank West project is progressing as planned, targeting sail-away and installation of the jacket in the spring and the topsides in the summer. Production is expected in the fourth quarter of 2019.

Future ambitions
Pandion Energy shares the operator's ambitions for the Valhall and Hod fields and will continue to support and challenge the operator to further develop resources in the area through a combination of targeting upside potential and applying new technology.

Towards the end of the year, the first liner with Fishbones Stimulation Technology was installed on Valhall IP, in a well targeting the Tor formation. This represents the first installation of Fishbones in a carbonate formation in the North Sea, and the world's first with particle control. It has the potential to reduce stimulation time, cost, stimulation pressure, provide controlled stimulation and reduce risk of chalk influx compared to the current practice of proppant fracturing.

During 2019, the operator will also carry out core testing and data collection in the Diatomite, which is a tight bioclastic reservoir with a large resource base.

KEY FACTS VALHALL & HOD FIELDS

Licenses:
PL006 B, PL033, PL033 B

Pandion working interest:
10%

Partner:
Aker BP (operator, 90%)

Discovered:
Valhall 1975, Hod 1974

Production start:
Valhall 1982, Hod 1990

Production 2018 (net):
3,998 boepd

End 2018 2P reserves (net):
28.9 mmboe

End 2018 2C resources (net):
36.5 mmboe

Duva field

The Duva field, formerly known as the Cara discovery, is located 6 kilometres northeast of the Gjøa field (12 kilometres from the Gjøa platform). The discovery was made in production license 636 in August 2016 and was the largest discovery made on the NCS in 2016.

At the end of 2018 the PL 636 license submitted the "Decision to Continue" (BOV) report to the Ministry of Petroleum and Energy and entered the define phase of the project, refining the technical and economic plan before committing to a final investment decision in February 2019.

The Plan for Development and Operations (PDO) for the Duva field was submitted by the partners to the Ministry of Petroleum and February 2019, just 18 months following the discovery.

Subsea tie-back

The Duva field will be developed as subsea tieback connecting to the nearby Gjøa platform. The first production from the project is expected in late 2020/early 2021. Maximum production is expected to yield around 30 thousand barrels of oil equivalents per day.

Duva's recoverable reserves are estimated at 16.7 million barrels of oil equivalents (net). The estimate has been significantly upgraded from the initial range of 5-14 mmboe (net), following a well data and flow test analysis by the operator in late 2017 and further maturation of the project.

The Duva field will be developed with a four-slot subsea template and tied back to the existing Gjøa platform for processing and export. The field will have three production wells, two oil producers and one gas producer, with the possibility of an additional oil producer. The total investments for the development are estimated to NOK 5.5 billion making the Duva development one of the most attractive development projects on the NCS today.

Duva is Old Norse, and is the name of of one of the daughters of the sea god Ægir and Ran.

Exploration upside

In January 2019 Pandion Energy was awarded additional acreage to the license under the 2018 Norwegian APA (Awards in Pre-defined Areas) License Round on the NCS.

The license PL 636 B is located on the Måløy slope, east of the Duva field and adds to the exploration upside within the license

KEY FACTS DUVA

License:
PL636, PL636 B

Pandion working interest:
20%

Partners:
Neptune Energy (operator, 30%,)
Idemitsu Petroleum Norge (30%)
Wellesley Petroleum (20%)

Discovered:
2016

Production start:
Late 2020/early 2021

End 2018 2C resources (net):
18.1 mmboe

Digitalisation of subsurface capabilities

Pandion Energy has recently embarked on the process of digitalisation of its subsurface capabilities through applying new digital solutions to geological and geophysical data. The objective is to drive innovation and enhance efficiency in the exploration for oil and gas on the NCS. In this context Pandion Energy has partnered with Computas and Google and mobilised a dedicated team comprising machine learning, data science and geoscience experts.

Pandion Energy is working together with Computas and Google to establsh a digital platform, aiming at both improving the quality of - and getting more geological and geophysical data through the use of digital technology.

The work has been motivated by Kerogen Capital, Pandion Energy's financial backer, selecting Pandion Energy as their first pilot case for developing an advanced digital subsurface data platform (KAI) as part of their wider digital strategy.

First Google partner

Being the first non-operator partnering with Google on the Norwegian Continental Shelf (NCS), Pandion Energy is highly recognised for its subsurface expertise and lean decision-making processes, demonstrated by the Company's rapid growth since inception. These are characteristics that will enable swift testing and implementation of new digital solutions.

Pandion Energy has always had a holistic approach to its exploration activities. Having Kerogen to select the Company as their first pilot case for developing an advanced digital subsurface platform, also reflects on the potential in digitalisation on the NCS.

In this context, Pandion Energy believes in the advantage of being a small and nimble player. The Company's ambitious plans related to subsurface digitalisation can therefore be tested rapidly without going through numerous organisational layers.

A global platform

Pandion Energy believes the partnerships will be very beneficial for all parties, sharing innovation and agility as two important drivers for the digital venture. A key basis for this work is the database Pandion Energy purchased from Tullow when establishing the company fall 2016. This included a large exploration database with information on the NCS, which is central to the development of the digital platform.

Driving innovation and enhancing efficiency through digitalisation.

The goal is to build a global platform for subsurface data. In the long term, KAI can become a platform that is made available to other players globally both inside and outside the Kerogen network.

Corporate governance and sustainability

Pandion Energy is committed to healthy corporate governance practices, strengthening the confidence in the Company, and thereby contributing to long-term value creation for shareholders, employees and other stakeholders. Sustainable corporate governance practices include sound ethical business practices, reliable financial reporting and strong core values. The objective of corporate governance is to regulate the division of roles between shareholders, the board and executive management more comprehensively than required by legislation.

Corporate governance

Pandion Energy is currently owned by funds managed by Kerogen Capital and the management team. Pandion Energy has a bond loan listed at the Nordic ABM, a list of registered bonds. The Company is subject to the rules of the list, which are determined by Oslo Børs. Pandion Energy is committed to an open and transparent communication with all stakeholders and aims for a fair and equal treatment of existing and future shareholders. The Company will seek to provide its stakeholders with the necessary details to assess the fair value of the Company, and the risks it faces.

The Board believes that good governance is rooted in adherence to regulations and laws, as well as ensuring a culture of integrity, accountability and transparency, through the continued development of all levels of staff. A thorough model of governance, risk management and control has been developed and implemented in the Company. The Company's management system is a key component of the governance model, which incorporates activities at the shareholder and market level, the Board level and the management level.

Values and Code of Conduct

Pandion Energy aims to be an active and responsible business partner and believes that sound business decisions are a product of a strong team, an active board and a competent owner. The Company's core values, being Professional, Agile, Commercial and a Team player, are an integrated part of its culture.

The Board of Pandion Energy has, in close cooperation with the management team, established a Code of Conduct, setting out the expectations, commitments and requirements for ethical conduct for its employees, consultants and the directors of the Board. The Company also expects its business partners and suppliers to act in a manner that is consistent with the principles of the Code of Conduct.

The Code of Conduct covers the following areas: HSE policy and commitment, anti-corruption, confidentiality, conflicts of interests, business practices towards suppliers and partners and guidelines for gifts, hospitality and expenses.

Pandion Energy has zero tolerance for bribery and corruption and works with its partners and contractors based on the same principles.

Sustainability

The Board of Pandion Energy works to make sure that the Company acts as a responsible partner on the NCS, by providing effective governance of the business to ensure the greatest possible value creation for the Company's stakeholders and the society, in a safe and reliable manner. The Company is committed to explore for - and produce oil and gas in a safe and responsible manner, and the fact that its organisation would never compromise on this is an important pre-requisite for the Company's main financial backer, Kerogen Capital. Kerogen Capital aims to be the private equity manager of choice for those seeking to invest in oil and gas sector and spends significant resources ensuring that sustainable and compliant practices are implemented in all companies it invests in. Kerogen Capital is also a signatory to the United Nations Principles for Responsible Investment ("UNPRI").

The Company will act responsibly towards all stakeholders when conducting its operations, be it shareholders and creditors, ensuring a fair and equal treatment; society and local communities, contributing to local and national wealth generation; employees, ensuring a safe and fruitful working environment; and authorities, providing an open and transparent approach built on the principle of collaboration.

Pandion Energy has no plans of expanding its operations outside of Norway for the foreseeable future. Being a pure-play on the NCS, the Company operates in a single governance environment with predictable

regulations. Having a non-operator strategy, the Company must also place confidence in the operators of its assets and is pleased to see that operators like Aker BP and Neptune Energy are determined to operate in a responsible manner and reduce the environmental footprint of their operations.

Management system

Pandion Energy has a comprehensive management system incorporating all the above aspects in one integrated system, defining the business processes, roles and responsibilities, control mechanisms and improvement loops to enhance its team's ability to achieve the Company's strategic objectives and create sustainable value for all stakeholders. The management system is a key component of Pandion Energy's governance model and it encourages transparency aiming for a fair and equal treatment of all shareholders.

In May 2018, the Norwegian Petroleum Safety Authority carried out an audit of Pandion in its role as a production license holder. The objective of the audit was to verify that Pandion's has a management system and exercises practical follow-up of its role as a licensee in accordance with Norwegian legislation, and that the Company possesses robust competence and capacity. The audit did not identify any non-conformities or improvement points, and Pandion's management system was found to cover all phases in which the Company is involved in.

Pandion Energy encourages its employees, contractors and any of its affiliates who have concerns about any aspects of its business to raise them and to disclose any information which relates to improper, unethical or illegal conduct in the work place. The Company has set up an independent disclosure service for "whistle blowing."

Pandion Energy is committed to an open and transparent communication with all stakeholders

OUR TEAM

Our team

Pandion Energy has a sharp focus on maximising value from high-quality assets and to target upsides in and around proven assets. Through the year of 2018, we have significantly strengthened our team of highly experienced professionals to support our successful growth.

At the beginning of 2019, Pandion Energy had 23 employees working from the Company's office in Oslo. In addition, several consultants work for the Company on various assignments.

The lean organisation is tailored to Pandion Energy's strategy as a non-operator company with an ambition to proactively follow up its operators to maximise the value from proven assets. The team has a strong geological, geophysical and reservoir competence and extensive project execution experience on the NCS.

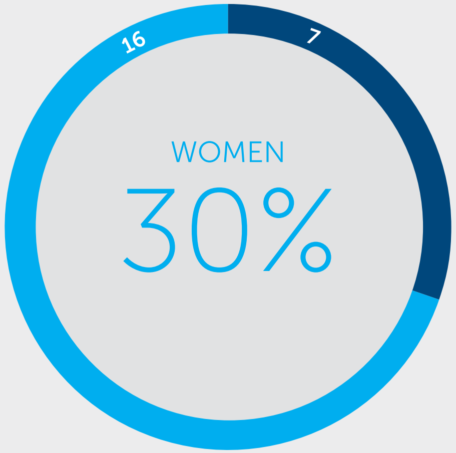
Pandion Energy is led by an experienced management team with an average of more than 20 years of experience with the oil and gas industry.

Both management and key employees are committed to the Company as shareholders, as they have made significant investments in the Company.

Key figures as of 01.04.2019

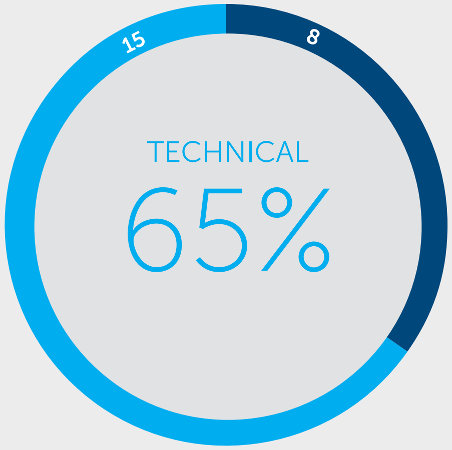
GENDER

Female
Male



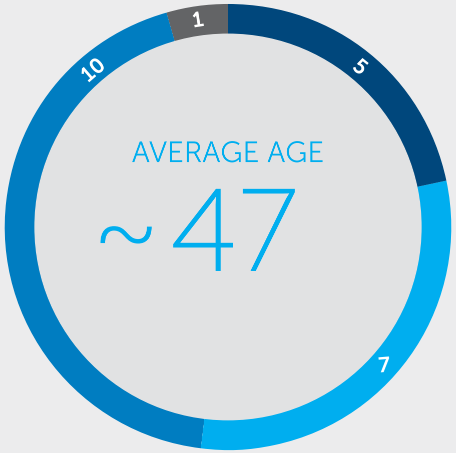
BUSINESS/TECHNICAL STAFF

Business support staff
Technical staff



AGE

30-39
40-49
50-59
60-69



EXPERIENCE

10-19 years
20-29 years
30-39 years

The management

Jan Christian Ellefsen
CEO
MSc Mechanical Offshore Engineering

Jan Christian Ellefsen leads the Pandion Energy team with 30 years of managerial, commercial and technical experience in the oil and gas industry. He has a background from both oil services and E&P companies, mainly within development and operations. Jan Christian was previously responsible for all Tullow's activities in Norway as Managing Director of Tullow Oil Norge AS.

Helge L. Nordtorp
Deputy CEO & VP BD / Executive Director
MSc Economics

Helge Nordtorp has 21 years of experience with the E&P industry managing regulatory processes as an officer at the Ministry of Petroleum and Energy, and strategy and business development projects as a management consultant. Previously a Director at DNB Markets, a leading Norwegian investment bank, he also has experience with M&A and capital markets transactions.

Hege Peters
VP Finance & Business Support
MSc Accounting and Auditing

Hege has 24 years of experience from a variety of finance functions, managing accounting, budgeting, liquidity, tax and compliance processes. She initially qualified at Arthur Andersen as a Senior Auditor.

Bente Flakstad Vold
VP Exploration & Appraisal
MSc Applied Geophysics

Bente has 22 years of managerial and technical experience in oil and gas exploration, appraisal and portfolio management on the NCS. Her extensive experience cover prospect generation and maturation, license round applications, planning and drilling of exploration and appraisal wells, and license portfolio management.

Kjetil Steen
VP Development & Production
MSc Mechanical Engineering

Kjetil has 24 years of experience with developments on the NCS and West Africa, particularly taking discoveries to Final Investment Decision with focus on technical feasibility, concept selection, and engineering design through to execution.

Oksana Karpenko Hillervik
VP HSE & Operations
MSc Industrial Economics and Tech. Mgmt.

Oksana has 12 years of experience from HSEQ advisory and managerial positions in E&P companies and management consulting, including risk management and planning and execution of operational activities on the NCS.

The Board of Directors

Alan Parsley
Chairman

Dr. Alan Parsley is an Executive Board Member and chairs the Technical Committee at Kerogen. He has over 40 years' industry experience, predominantly at Shell, where he held senior positions including Global Head of Exploration, Head of New Business Ventures, and Chairman of Shell Australia. He formerly served as a member of the board of Woodside Petroleum Ltd.

Jan Christian Ellefsen
CEO / Executive Director

Jan Christian Ellefsen leads the Pandion Energy team with 30 years of managerial, commercial and technical experience in the oil and gas industry. He has a background from both oil services and E&P companies, mainly within development and operations. Jan Christian was previously responsible for all Tullow's activities in Norway as Managing Director of Tullow Oil Norge AS.

Helge L. Nordtorp
Deputy CEO & VP BD / Executive Director

Helge Nordtorp has more than 20 years of experience with the E&P industry managing regulatory processes as an officer at the Ministry of Petroleum and Energy, and strategy and business development projects as a management consultant. Previously a Director at DNB Markets, a leading Norwegian investment bank, he also has experience with M&A and capital markets transactions.

Tushar Kumar
Non-executive Director

Tushar Kumar is a Director on the Investment and Portfolio Management Team of Kerogen. He has more than 15 years' experience in oil and gas investing and banking across Europe, the Middle East and Asia. He was previously an Executive Director at Morgan Stanley's natural resources group in London, and prior to that he was at J.P. Morgan's energy and natural resources group in Hong Kong.

Jason Cheng
Non-executive Director

Jason Cheng is the Managing Partner and Co-Founder of Kerogen. Jason has over 20 years' commercial experience across investing, operations and investment banking. He was the Managing Partner of Ancora Capital and Jade International Capital Partners in Beijing. Prior to that he worked in the energy and natural resources investment banking group at J.P. Morgan and Schroders.

Roberta Wong
Non-executive Director

Roberta Wong is a Vice President on the Investments and Portfolio Management team of Kerogen. Prior to Kerogen, she worked with members of the Kerogen team at J.P. Morgan's Energy and Natural Resources Group in Hong Kong since 2008, specialising in energy M&A and capital raisings including advising Asian NOCs in relation to their international acquisition strategies.

BOARD OF DIRECTORS' REPORT

Board of Directors' report 2018

In 2018, Pandion Energy made significant progress in establishing itself as a true full-cycle oil and gas company on the Norwegian Continental Shelf. The Company expanded its portfolio across all phases from exploration to production, significantly strengthened its team, and secured a solid financial position enabling future growth. The Company recorded revenues of USD 101 million in its first year with operating activities.

Pandion Energy participates in the discovery, appraisal, development, and production of oil and gas resources on the Norwegian Continental Shelf (NCS), driving value by maturing resources to reserves in high-quality assets.

ABOUT PANDION ENERGY

Business and location

Pandion Energy AS (Pandion Energy or the Company) was founded in November 2016 to perform a management buyout of the operational platform and 6 licenses of Tullow Oil Norge AS, previously Spring Energy Norway AS. The Company is owned by the management team and Kerogen Capital, an independent private equity fund manager specialising in the international energy sector.

Pandion Energy is a Norwegian company with its head office at Lysaker in Oslo, Norway.

At year-end 2018, the Company had an asset portfolio comprising a 10 per cent interest in the Valhall & Hod producing fields (PL 006B, PL 033B, PL 033), a 20 per cent interest in the Duva development project (PL 636, formerly known as the Cara discovery), as well as interests in seven exploration licenses. In addition, in January 2019, the Company was awarded two licenses under the 2018 Norwegian APA (Awards in Predefined Areas) licensing round and has further undertaken a transaction with Aker BP to acquire 30 per cent working interest in exploration license PL 842. The transaction is subject to approval by the Norwegian Ministry of Petroleum and Energy effective of 1 January 2019. At 31 December 2018, Pandion Energy's portfolio included approximately 29 mmboe of net proven and probable reserves (2P) and 55 mmboe of contingent net resources (2C). Please see an overview of the assets in a separate section of this annual report or at the Company's homepage www.pandionenergy.no.

Vision and strategy

Pandion Energy's business model is to be a full-cycle exploration and production company, participating in the discovery, appraisal, development, and production of oil and gas resources on the Norwegian Continental Shelf (NCS). Pandion Energy has an ambitious growth strategy, supported by a strong balance sheet and capital structure. The Company will pursue various growth opportunities, including mergers and acquisitions, farm-ins and participation in future licensing rounds. Pandion Energy's strategy is to be an active and responsible non-operated partner across all assets in the portfolio.

Strategic achievements 2018

In January, Pandion Energy was awarded two new prospective exploration licenses under the 2017 Norwegian APA (Awards in Predefined Areas) licensing round on the NCS. Both licenses are located in the North Sea. PL 912 is located at the southern margin of the Utsira High, while PL 929 is located at the Måløy slope, between the Agat field to the north and the Gjøa field to the south.

In March, the Ministry of Petroleum and Energy approved the plan for development and operation (PDO) for Valhall Flank West, where Pandion Energy has a 10 per cent interest. The project aims to continue the development of the Tor formation on the western flank of the Valhall field. Gross recoverable reserves for the Valhall Flank West are estimated to be around 60 mmboe and the total investments for the development are estimated to be NOK 5.5 billion over 2018-2020, of which capital expenditures net to Pandion Energy are estimated to be NOK 550 million.

In April, Pandion Energy successfully completed its first major debt financing, establishing a solid financial platform for future growth. The debt financing includes a reserve-based lending (RBL) facility of USD 150 million with an uncommitted accordion of USD 150 million, providing flexibility for further acquisitions and new development opportunities. The RBL facility was signed with BNP Paribas, DNB, ING and SEB with maturity in April 2025. In addition, Pandion Energy issued a NOK 400 million unsecured bond with maturity in April 2023. The bond was listed at the Nordic ABM, a list of registered bonds for which Oslo Børs determines the rules of the list in consultation with market participants, in October 2018.

In May, the Norwegian Petroleum Safety Authority completed an audit, verifying that Pandion Energy's management system is well structured, covering all phases of E&P operations the Company is involved in. In addition, the audit confirmed that Pandion Energy has exercised practical follow-up of its role as a licensee and that it possesses robust competence and capacity.

In August, Pandion Energy announced that it had entered into an agreement with Wintershall Norge AS to acquire a 10 per cent interest in PL 820S in the Norwegian North Sea. The license is located, north-northwest of the Balder and Ringhorne fields, and is operated by MOL Norge AS (40 per cent) with Lundin Norway AS (30 per cent) and Wintershall (20 per centafter farm-down) as partners. An exploration well is planned to be drilled in the license in 2019.

On 31 December 2018, Pandion Energy announced that it had entered into an agreement with Aker BP ASA acquiring a 30 per cent interest in PL 842 in the Norwegian Sea. The license is located in the east-northeast of the Norne field. PL 842 is operated by Capricorn Norge AS (40 per cent) with Skagen44 AS (30 per cent) as partner. An exploration well is planned to be drilled in the license in 2019.

FINANCIAL REVIEW

Pursuant to the § 3-3a of the Norwegian Accounting Act, the Board of Directors confirms that the conditions for continued operations as a going concern are present and that the annual accounts have been prepared on the basis of this presumption. The Board of Directors confirms that the annual accounts represent a true and fair view of the Company's financial position and is not aware of any factors that would materially affect the assessment of the company as of 31 December 2018.

The financial statements of the Company are prepared in accordance with 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.

2017 was the first year of operations for Pandion Energy. However, during 2017 the Company had only seismic activities, and no production, and thus the Company had no operating income or operating expenses that year. The acquisition of 10 per cent of the Valhall & Hod fields from Aker BP had an effective date as of 1 January 2017, but the revenues during 2017 was accounted for in the pro et contra settlement at closing of the transaction and not in the income statement.

Following the acquisition of the 10 per cent interest in the Valhall & Hod fields from Aker BP, the Company changed its functional currency from NOK to USD effective from 1 January 2018.

Income statement

In 2018, Pandion Energy recorded total revenues of USD 101.0 million. The revenues relate to Pandion Energy's 10 per cent interest in Valhall & Hod producing fields. Average production net to Pandion Energy was 4,000 barrels per day, and average realised oil price was USD 71 per bbl in 2018.

Operating expenses amounted to USD 39.3 million in 2018. As mentioned above, the Company did not have operating income or expenses in 2017.

Exploration expenses were USD 8.9 million in 2018, compared with USD 10.3 million in 2017. Exploration expenses include expenses related to New Venture activities, like acquisiton, processing and analysis of seismic data and allocation of own expensed costs including general and administrative expenses. The lower exploration expenses in 2018 were mainly related to a less regional seismic acquisition.

Pandion Energy recorded an operating profit of USD 43.3 million and an EBITDAX* of USD 63.7 million for 2018.

The Company recorded net financial expenses of USD 17.7 million for 2018, compared with financial income of USD 1.8 million for 2017, mainly due to the Company's debt financing completed in 2018. The financial expenses include interest expenses of USD 8.9 million related to the Company's unsecured bond, RBL facility, and Exploration finance facility ("EFF"), as well as accretion expenses of USD 6.5 million related to asset retirement obligations. Please see the notes to the accounts for more details on the

Company's debt structure.

Profit before income tax for 2018 was USD 25.7 million, up from a loss of USD 9.1 million in 2017. Income tax expense amounted to USD 24.1 million for 2018, compared with a tax credit of USD 6.5 million for 2017, resulting in a net profit of USD 1.5 million in 2018, compared with a net loss of USD 2.6 million for 2017.

Cash flow statement

Net cash flow from operating activities amounted to USD 28.2 million for 2018, up from a negative USD 8.2 million reported for 2017. The positive cash flow is primarily driven by the income before tax, partly offset by abandonment expenditures mainly related to the first phase of the campaign to permanently plug old wells at Valhall of USD 25.4 million. The difference between cash flow and profit provided by operating activities was mainly due to depreciation, amortisation and net impairment losses.

During 2018, Pandion Energy had a net cash flow from investing activities of USD -62.5

** EBITDAX - Earnings before interest, tax, depreciation, amortisation and exploration* million, compared with USD -183.0 million in 2017. In 2018, the activities were driven by investment projects in the Valhall field, mainly Flank West development IP drilling program, and Flank North water injection. In 2017 the main investment activity was the acquisition of the 10 per cent interest in the Valhall & Hod fields from AkerBP.

Net cash flow from financing activities was USD 44.5 million in 2018. This figure comprises of: (i) the NOK 400 million unsecured bond issued in April, which was later converted to USD 51.6 million through a cross currency swap, (ii) the RBL (reserve-based lending) facility drawdown of USD 73.1 million, (iii) EFF (exploration of finance facility) drawdown of USD 11.0 million and (iv) shareholder loan drawdown of USD 14.3 million, partially offset by repayment of shareholder loan (USD 95 million) and EFF facility (USD 10 million).

At the end of 2018, cash and cash equivalents amounted to USD 19.1 million, up from USD 9.0 million at the end of 2017.

Financial position

As of 31 December 2018, total assets amounted to USD 434.9 million, of which property, plant and equipment represented USD 198.7 million and intangible assets represented USD 183.9 million. At the end of 2017, total assets were recorded at USD 391.2 million, including property, plant and equipment of USD 129.9 million and intangible assets of USD 203.3 million.

Total equity was USD 109.9 million at the end of the year, representing 25.3 per cent of total assets. The share capital was USD 113.5 million, of which USD 41.0 million was issued in 2018. At the end of 2017, the equity was USD 69.9 million.

Total interest-bearing debt at the end of 2018 was USD 130.3 million, up from USD 5.9 million at the end of 2017.

Events after the period

In January 2019, Pandion Energy was awarded two new prospective exploration licenses under the 2018 Norwegian APA (Awards in Predefined Areas) licensing round on the NCS. License PL 985 is located in the Central North Sea. Pandion Energy has been offered a 20 per cent participating interest in PL 985. License PL 636B is an additional acreage to PL 636, which is the Duva development project. The license is located on the Måløy slope, east of Gjøa field in a strategic core area for the Company. Pandion Energy has also been offered a 20 per cent participating interest in PL 636B.

Also, in late January 2019, Pandion Energy announced that it has partnered with Computas and Google, as part of the Company's efforts to digitise its subsurface capabilities, drive innovation and enhance efficiency in exploration. The work has been motivated by Kerogen Capital, the company's partner and major shareholder, in developing an advanced digital subsurface platform (KAI).

In February 2019, the license partners of the Duva project (PL 636), formerly known as Cara discovery, submitted the development plan (PDO) for the project to the Ministry of Petroleum and Energy.

RISKS AND RISK MANAGEMENT

Pandion Energy is subject to numerous controllable and uncontrollable risks deriving from the nature of the oil and gas business in a business landscape that is dynamic and volatile. The oil and gas industry, and Pandion Energy, has a variety of operational, financial and external risks that may not be fully possible to eliminate even with robust processes and experience.

The Board of Pandion Energy works together with the Company to develop a risk management strategy and processes to enable the management to deal efficiently with, and proactively prevent potential accidents. The Board is also responsible for overseeing the implementation of this strategy, by making sure that the framework for the identification, control, and monitoring on all risk areas is up to standard, and that the systems and procedures are in place to address these risks.

Operational risks

The Board recognises the risks associated with the Company's operational assets. The regulation of activities on the NCS provides a sound framework for handling these risks, and the Company takes an active approach as a partner.

Future production of oil and gas is dependent on the Company's ability to find, or acquire, and develop reserves.

There is always a risk that a major operational incident could occur as drilling, production and decommissioning activities will never be entirely risk-free. Further, there are risks related to the integrity of the Company's assets, risks associated with the reported reserves and resources, and risks associated with third-party contractors or operators, as the Company's assets are non-operated. Costs of development projects or exploration efforts are also uncertain.

As a result of these risks, the Company may incur costs that have the potential to damage the Company's financial position or its reputation as a player on the NCS. The Company intends to act as a sound, responsible and technically competent partner across the whole spectrum of activities in all its operations. Pandion Energy works actively together with operators and has established mitigating actions to reduce the possibility of operational incidents occurring. In addition, the Company's risk management includes contingency plans to reduce the potential impact if an operational incident should occur.

Financial risks
The Company is exposed to market fluctuations in commodity prices, foreign exchange rates, and interest rates. These fluctuations could impact the company and further influence banks' and investors' appetite to lend to, or invest in, the Company. The Company has no material exposure to credit risk from its operating activities.

The Company's production is crude oil dominant, and it has put in place hedging efforts to secure the value and liquidity of its production through acquiring put options. A downturn in oil prices could still, however, result in a dampened sentiment amongst market players to invest in exploration and new developments that could adversely impact the growth ambitions of the Company.

Pandion Energy has entered into an extensive oil price hedging program to reduce the risk related to oil prices. At the end of 2018, more than 70 per cent of the expected volumes for 2019 were hedged at USD 55/bbl (USD 52/bbl net of costs), while more than 40 per cent of the post-tax volumes for the first quarter of 2020 were hedged at USD 56/bbl (USD 54/bbl net of costs).

The entire existing hedging program is based on put options. Following the decrease in the long-term oil prices during the fourth quarter of 2018, the Company had an unrealised gain from hedging presented as other income amounting to USD 4.1 million.

Currency risks arise from multi-currency cash flows within the Company. Pandion Energy is exposed to foreign currency exchange risk on its purchase and sales, including financing costs that are denominated in currencies other than USD. The Company will preferable raise funding in USD, however the senior unsecured bond was, due to market consideration, raised in NOK. To mitigate the currency risk arising from the debt issuance the Company has entered cross currency swaps in 2018.

The Company`s interest rate risk arises from its interest-bearing borrowings. Borrowings issued with floating interest rate conditions expose the Company to cash flow interest rate risk. Pandion Energy has issued a floating rate bond and is exposed to interest rate risk. The Company has entered into interest rate swaps in 2018 to manage the exposure to interest rate risk.

The Company's future capital requirements depend on many factors, and the Company may need additional funds to fulfil its commitments and further develop exploration and development programmes to support the strategic direction of the Company.

Pandion Energy is highly focused on active risk management through potential hedging, liquidity focus, and insurance.

Offshore insurance program
The Company has insured its pro rata liability on the NCS on a par with other oil companies and offshore insurance programs are in place covering the following risks (non-exhaustive):

- Loss of Production Income
- Physical damage to assets
- Control of Well
- Third party liability

Pandion Energy is actively reducing financial risk through an extensive insurance program, where the key element is loss of production income cover for an indemnity period of 18 months with a 45-day waiting period.

External risks
The business landscape in which the Company operates can change rapidly. The risks of changes to commodity prices are addressed under financial risks, but the Company also faces other external risks that could affect its financial position over time. For instance, there can be no assurance that legislation, including tax regulations, will not be changed in a manner that could adversely affect the Company. There is also a potential exposure from the response to climate change, as changes to regulations on emissions. The Company aims to develop a portfolio of assets that remain resilient as the government`s response to climate change evolves.

CORPORATE GOVERNANCE AND SUSTAINABILITY
Pandion Energy is committed to a healthy corporate governance that creates confidence in the Company, thereby contributing to good long-term value creation for shareholders and other stakeholders. The objective of corporate governance is to regulate the division of roles between shareholders, the Board and executive management more comprehensively than required by the legislation.

Pandion Energy is currently owned by funds managed by Kerogen Capital and the management team. The Company has a bond listed at the Nordic ABM, a list of registered bonds for which Oslo Børs determines the rules of the list in consultation with the market participants. The Company encourages transparency and aims for a fair and equal treatment of all existing and future shareholders. The Company will seek to provide all existing and future investors with the necessary details to assess the fair value of the Company, and the risks it faces.

Please see the separate section on corporate governance in this report.

HEALTH, SAFETY AND ENVIRONMENT

Health, Safety and Environment (HSE) is of paramount importance to Pandion Energy. The Company operates in the oil and gas industry where operations can have a profound impact on the environment and communities, and where the workforce is exposed to safety risks. The consideration of HSE is thus of strategic importance and a pre-requisite for the Company.

The Board of Pandion Energy has adopted a HSE Policy for all the Company's employees and contractors in order to manage all activities in a responsible manner without harm to the people involved, and in accordance with the principles of sustainable development.

The Company has established a comprehensive HSE management system, requiring competent employees and contractors to deliver compliant operations through rigorous planning and execution, as well as being a system for effective risk management. Technical, economic and HSE considerations are an integrated part of Pandion Energy's decision-making and operational processes to achieve long-term sustainability of the business and to reduce risk. The Company constantly strives to manage the HSE risk by understanding what can go wrong, and thereby minimising the possibility of it occurring, and reducing the potential consequences. Effective management of the HSE risks is about embedding the HSE practices into the Company's culture and operating procedures.

Pandion Energy has no operated assets in its portfolio, but the Company works closely with the operators to identify, control, and monitor risks. Pandion Energy provides a proactive and constructive challenge to the HSE policies, procedures, and activities of the operators of its assets. Pandion Energy place great importance on ensuring that operations the Company takes part in are safe for the people involved and aims to minimise the impact on the environment. This is enforced through the Company's established processes and procedures yielding periodic interaction with the operators and continuous identification of follow-up issues within the following categories: HSEQ & Regulatory Compliance, Joint Venture, Subsurface, Production, Drilling and Wells, Technology and Field Development, Execution, Commercial, Operations and Facilities, Business Case and Incidents. Detailed action plans are established for each follow-up issue to either seek additional information or clarification from the operator(s), perform third party verification work or conduct Pandion Energy internal work to propose technical or operational recommendations to the operator(s).

During the reporting period, there were no major accidents or any environmental claims to any of the operating assets in which Pandion Energy participated. Further, the Company experienced no injuries or incidents during the reporting period.

ORGANISATION

As of 31 December 2018, the Company had 22 employees, up from 15 employees at the end of 2017.

The working environment in Pandion Energy is considered to be good. Absence on sick leave was 3.66 per cent in 2018, compared with 1.06 per cent in 2017. As Pandion Energy has relatively few employees, sick leave among one or two persons more than the previous period has a significant impact on the percentage.

Pandion aims to keep sick leave at low levels by constantly improving working conditions.

The company aims to maintain a working environment with equal opportunities for all based on performance and irrespective of gender, age, religion, ethnicity, sexual orientation, disability, or any other protected status.

As of 31 December 2018, 32 per cent of the employees were female, compared with 33 per cent at the end of last year. Female employees made up 50 per cent of the Management team, while one out of six board members is female.

OUTLOOK

The Board considers Pandion Energy to be very well positioned for further growth. The Company will continue its path to identify and invest in proven, high quality assets in all phases, as well as applying for awards through future licensing rounds. By being a strong licence partner in proven fields, the Company will benefit from partnerships with strong operators and contribute to maximising the value of producing reserves.

The Company's development project, Duva, is currently expected to commence production in late 2020/early 2021, while the Valhall Flank West project is expected to commence production in the fourth quarter of 2019.

Oslo, Norway, 3 April 2019
The Board of Directors and CEO of Pandion Energy AS

Alan John Parsley
Chairman of the Board

Jan Christian Ellesen
CEO/Board Member

Helge Larssen Nordtorp
Board Member

Tushar Kumar
Board Member

Jason Aun Minn Cheng
Board Member

Roberta Wong
Board Member


VALHALL

RESPONSIBILITY STATEMENT

We confirm, to the best of our knowledge, that the financial statements for the period from 1 January to 31 December 2018 have been prepared in accordance with IFRS as adopted by the European Union and generally accepted accounting practice in Norway and give a true and fair view of the assets, liabilities and financial position and result of Pandion Energy AS. The notes are an integral part of the financial statements

We also confirm, to the best of our knowledge, that the Board of Directors' report includes a true and fair overview of the development, performance and financial position of Pandion Energy AS, together with a description of the principal risks and uncertainties.

Oslo, Norway, 3 April 2019
The Board of Directors and CEO of Pandion Energy AS

Alan John Parsley
Chairman of the Board

Jan Christian Ellesen
CEO/Board Member

Helge Larssen Nordtorp
Board Member

Tushar Kumar
Board Member

Jason Aun Minn Cheng
Board Member

Roberta Wong
Board Member

FINANCIAL STATEMENTS 2018

Content

Statements of income

Statements of income

(Amounts in USD`000)	Note	2018	2017
Revenues		100 588	-
Other income		2 425	-
Total Income	7	**103 013**	**-**
Operating expenses	8	(39 276)	-
General and administrative expenses		-	(540)
Depreciation, amortisation and net impairment losses	14	(11 551)	(19)
Exploration expenses	8	(8 854)	(10 327)
Total expenses		(59 681)	(10 885)
Profit from operating activities		**43 332**	**(10 885)**
Net financial items	12	(17 650)	1 784
Profit before income tax		**25 682**	**(9 101)**
Income tax	13	(24 137)	6 521
Net income		**1 545**	**(2 581)**

Statements of comprehensive income

(Amounts in USD`000)	Note	2018	2017
Net income		1 545	(2 581)
Other comprehensive income - items that may be subsequently reclassified to the Statements of Income			
Cash Flow hedges			
Net gain/losses arising from hedges recognised in OCI	23	(9 131)	-
Net amount reclassified to profit and loss	23	5 828	-
Tax on items recognised over OCI	13, 23	727	-
Other comprehensive income		(2 577)	-
Total comprehensive income		**(1 032)**	**(2 581)**

Balance sheet statements

Assets

(Amounts in USD`000)	Note	2018	2017
Deferred tax assets	13	-	27 342
Goodwill	15	124 785	124 785
Intangible assets	15	59 110	78 513
Property, plant and equipment	14	198 743	129 901
Prepayments and financial receivables		136	144
Total non-current assets		**382 773**	**360 684**
Inventories		6 822	5 200
Trade and other receivables	18	9 050	5 491
Financial asset at fair value through profit or loss	21	8 075	-
Tax receivable from exploration refund	13	9 094	10 827
Cash and cash equivalents	10	19 133	8 965
Total current assets		**52 173**	**30 482**
Total assets		**434 947**	**391 167**

Equity and liabilities

(Amounts in USD`000)	Note	2018	2017
Share capital		113 492	21 258
Other paid in capital		-	51 251
Other equity		(3 631)	(2 599)
Total equity	19	**109 861**	**69 911**
Deferred tax liability	13	5 202	-
Asset retirement obligations	20	153 994	143 198
Borrowings	17	116 349	-
Hedging derivatives	21,23	8 499	-
Total non-current liabilities		**284 045**	**143 198**
Asset retirement obligations	20	9 567	39 000
Trade, other payables and provisions	22	25 499	13 313
Borrowings	17	5 975	5 618
Liabilities to related parties		-	120 128
Total current liabilities		**41 041**	**178 058**
Total liabilities		**325 086**	**321 256**
Total equity and liabilities		**434 947**	**391 167**

Balance sheet statements

Oslo, Norway, 3 April 2019
The Board of Directors and CEO of Pandion Energy AS

Alan John Parsley
Chairman of the Board

Jan Christian Ellesen
CEO/Board Member

Helge Larssen Nordtorp
Board Member

Tushar Kumar
Board Member

Jason Aun Minn Cheng
Board Member

Roberta Wong
Board Member

Statements of cash flow

(Amounts in USD`000)	Note	2018	2017
Income before tax	13	25 682	(9 101)
Depreciation, amortisation and net impairment losses	14	11 588	19
Expensed capitalised exploration expenses	8	1 777	115
Accretion of asset removal liability	20	6 462	-
(Gains) / losses on foreign curency transactions and balances		-	(5 293)
(Increase) / decrease in value of financial assets at fair value through profit or loss	7	(2 425)	-
(Increase) / decrease operational financial asset	21	(5 650)	-
Asset removal cost	20	(25 415)	-
Net financial expenses		11 188	-
Interest and fees paid		(11 647)	-
(Increase) / decrease in working capital		6 143	6 046
Tax payable received / (Paid)		10 468	-
Net cash flow from operating activities		**28 171**	**(8 214)**
Acquisition business combination	4	-	(170 959)
Capital expenditures and investments in furniture, fixtures and office machines	14	(19)	(105)
Capital expenditures and investments in oil and gas assets	14	(51 965)	-
Capital expenditures and investments in exploration and evaluation assets	15	(10 504)	(11 950)
Net cash flow from investing activities		**(62 486)**	**(183 014)**
Share capital contribution		-	72 509
Increase interest bearing obligations, loans and borrowing		149 553	127 684
Decrease interest bearing obligations, loans and borrowing		(105 070)	-
Net cash flow from financing activities		**44 483**	**200 193**
Net change in cash and cash equivalents		**10 167**	**8 965**
Cash and cash equivalents at the beginning of the period		8 965	-
Cash and cash equivalents at the end of the period		**19 133**	**8 965**

NOTES TO THE ACCOUNTS

Notes to the accounts

NOTE 1 ORGANISATION

Pandion Energy AS ("Pandion Energy" or "the Company") was founded in November 2016 through a management buyout of the operational platform and licenses of Tullow Oil Norge AS and is incorporated and domiciled in Norway. The address of its registered office is Lilleakerveien 8, 0283 Oslo, Norway. Pandion Energy is a private oil and gas company focusing on exploration, appraisal, development and production opportunities on the Norwegian Continental Shelf.

As 2017 was the first year of operations, the accounting period was extended from 11 November 2016 to 31 December 2017. The financial statements of the Company for the period ending 31 December 2018 were authorised for issue in accordance with a resolution of the Board of Directors on 3 April 2019.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance
The financial statements of the Company are prepared in accordance with simplified IFRS pursuant to the Norwegian Accounting Act §3-9 and regulations regarding simplifies application of IFRS issued by the Norwegian Ministry of Finance on 3 November 2014.

Basis of preparation
The financial statements are prepared on the historical cost basis with some exceptions, as detailed in the accounting policies set out below. The subtotals and totals in some of the tables may not equal the sum of the amounts shown due to rounding.

Expenses related to operating activities in the statements of income are presented as a combination of function and nature in conformity with industry practice. Depreciation, amortisation and net impairment losses are presented in separate lines based on their nature while operating expenses and exploration expenses are presented on a functional basis. Operating expenses and exploration expenses as presented in the statements of income include a share of salaries and related expenses reclassified using allocation keys based on time writing. Remuneration costs (salaries, pensions etc.) are presented by the nature in the notes to the financial statements.

The statements of cash flow have been prepared in accordance with the indirect method.

Interest in joint operations (arrangements in which Pandion Energy and other participants have joint control and each of the parties have rights to the assets and obligations for the liabilities, rating to their respective share of the arrangement) and similar arrangements (licenses) outside the scope of IFRS 11 are recognised on a line-by-line basis, reflecting the Company`s share off assets, liabilities, income and expenses.

Pandion Energy has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

IFRS 9 Financial Instruments - the effect of this adoption is not significant . The classification and measurement, and impairment requirements, are applied retrospectively by adjusting the opening balance sheet at the date of initial application. As permitted by IFRS 9, Pandion has not restated comparatives.

IFRS 15 Revenue from Contracts with Customers - the Company has not had any implementation effect of the standard due to the fact that the Company did not have any revenue in 2017.

Standards not yet adpoted:

IFRS 16 Leases
The standard covers the recognition of lease and related disclosure in the financial statements, and will replace IAS 17 Leases. The standard requires assets and liabilities arising from all leases, with some exceptions, to be recognised on the balance sheet.

Pandion Energy is a lessee in applying lease accounting, and the descriptions below consequently reflect lessee accounting.

The standard will be implemented without restatement of prior periods` reported figures. Right of use-assets will initially be reflected at an amount equal to the corresponding lease liability.

The company has chosen to apply the recognition exemptions in the standard to lease agreements related to assets with a low value or lease term shorter than 12 months.

Pandion Energy has assessed the impact of IFRS 16 on the financial statements and identified the office lease agreement containing a lease after IFRS 16. The office lease agreement will be recognised as a lease liability in the balance sheet statements starting the reporting period as of 1 January 2019. This liability is estimated to approximately USD 1 million.

Certain aspects by IFRS 16 are currently under review by the IASB and the IFRS interpretations Committee (IFRIC), particulary related to the recognitions of leases entered by operators in the oil and gas industry for the use in joint operations. Pending final conclusion from the IASB and IFRIC Pandion Energy has not made a final conclusion of the interpretation and application of IFRS 16 on potential lease contracts in partner licenses. Two rig contracts in the Company`s partner licenses can potentially be considered as lease after IFRS 16 where the joint arrangements is the lessee in this agreements. The two potential contracts are estimated to increase the balance sheet statements by adding lease liabilities of approximately USD 32 million.

In the statements of income operating lease costs will be replaced by depreciation and interest expenses. For leases allocated to activities which are capitalised, the costs will continue to be expenses as before, through depreciation of the assets involved or through subsequent expensing of capitalised exploration.

Functional and presentation currency and foreign currency translations

Following the acquistion of a 10 per cent interest in the Valhall and Hod oil fields, the Company made an assessment of the requirements in IAS 21 regarding functional currency and concluded that the functional currency has changed from NOK to USD with effect from 1 January 2018. This assessment was based on an evaluation of the Company's primary economic environment and related cash flows. By entering into Valhall and Hod oil fields as producing licenses Pandion will have ordinary sales in USD and for funds that financing activities are generated from USD will be the main currency. The currency that influences costs will be a mix of NOK and USD, but here NOK will be the main currency. The 2017 Statements of Income are translated to USD at average exchange rate 8,263 for 2017, and the balance sheet as of 31 December 2017 are translated at the exchange rate 8,205 at the balance sheet date .

The company also changed the presentation currency to USD from the same date, and the change in presentation currency has been treated as a change in accounting principles which in accordance with IAS 8 has been made retrospectively by translating comparative figures to USD as if this has always been the presentation currency.

Transactions in foreign currencies are translated to USD, at the foreign exchange rate at the dates of the transactions. Foreign exchange differences arising on translation are recognised in the statement of income as net finacial items. Non-monetary assets that are measured at historical cost are translated using the exchange rate at the dates of the transactions. Equity transactions are translated at the exchange rate on the transaction date. All resulting exchange differences are recognised in other comprehensive income.

Change in presentation currency is considered a voluntarily change in accounting principle which, according to IAS 1, requires a third statement of financial position as at the beginning of the preceding period, i.e. 1 January 2017. However, as the company was established in November 2017 the figures for this two months period are included in 2017 figures and therefore no third balance sheet statements as at the beginning of the preceding period are presented.

Business combination versus asset acquisition

Determining whether an acquisition meets the definition of a business combination requires judgment to be applied on a case by case basis.

The most important consequence of an acquisition being deemed to be asset acquisition rather than a business combination, is that no deferred tax related to excess fair values is recognised, as the initial recognition exemption for deferred tax under IAS 12 applies. No goodwill is recognised in an asset purchase transaction.

Upstream activities in the production phase will typically represent a business, whereas those at the exploration stage will typically represent a asset purchase. Projects that lie in the development stage are more difficult to judge and will require consideration of the stage of development and other relevant factors.

Business combinations are accounted for using the acquisition method for accounting. The acquired identifiable tangible and intangible assets, liabilities and contingent liabilities are measured at their fair values at the date of the acquisition.

Revenue recognition
IFRS 15 applies, with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires the revenue to be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. Pandion recognise revenue upon satisfaction of the performance obligations for the amounts that reflect the consideration entitled in exchange for goods. Revenue associated with the sale and transportation of crude oil, natural gas and petroleum products and other merchandise are recognised when a customer obtains control of the goods, which normally will be when title passes at point of delivery of the goods, based on the contractual terms of the agreements.

Income taxes
Income tax expense/credit consists of current income tax (taxes payable/receivable) and changes in deferred income tax.

Current Income Tax
Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted at the balance sheet date.

Current income tax relating to items recognised directly in equity or other comprehensive income, is recognised in equity and not in the statements of Income.

Oil-exploration companies operating on the Norwegian Continental Shelf under the offshore tax regime can claim a 78% cash refund of their exploration costs, limited to taxable losses for the year. The refund is paid out in November in the following year. This tax receivable is classified as a current asset.

Deferred Income Tax
Deferred income tax is provided using the liability method on temporary differences between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes at the balance sheet date.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that a 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.

Companies operating on the Norwegian Continental Shelf under the offshore tax regime can claim the tax value of any unused tax losses or other tax credits related to its offshore activities to be paid in cash (including interest) from the tax authorities when operations cease. Deferred tax assets that are based on offshore tax losses carried forward are therefore normally recognised in full. The carrying amount of deferred income tax assets related to onshore activities are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets related to onshore activities are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax relating to items recognised directly in equity or other comprehensive income, is recognised in equity and not in the Statements of Income.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority/tax regime. Timing differences are considered.

Employee benefits
Pensions
The company is required to have an occupational pension scheme in accordance with the Norwegian law on required occupational pension ("lov om obligatorisk tjenestepensjon"). The company's pension scheme meets the requirements of that law. Contributions are paid to pension insurance plans and charged to the Statements of Income in the period incurred.

Management Incentive Plan
Management long term incentive plan offer rewards by an eventually exit event of the Company's main shareholder Kerogen. A liability related to Management long term incentive plan is calculated at end of reporting period, and is recognised over estimated vesting period. The fair value is dependent on several assumptions related to among other exit value, discount rate and estimated probability of each employee to stay employed at the moment of exit event.

Phantom Shares
As part of the Company's bonus scheme, employees may receive phantom shares which follow the pricing of the Company's real shares. Phantom shares are accounted for as cash-settled share-based payment. The fair value of phantom shares at the exit date is calculated based on fair value of mandatory shares at grant date, estimated probability of each employee to stay employed at the moment of exit event and recognised over estimated vesting period. The fair value of the liability for phantom shares including social security tax and holiday pay is remeasured at each end of financial year and at the date of settlement based on valuation prepared by Kerogen (the owner). Any changes in fair value are recognised in profit or loss for the period. When an exit event occurs, the value of the phantom shares will be paid as a cash settlement to the employees (as salary).

Oil and gas exploration, evaluation and development expenditures
The company uses the 'modified successful efforts' method to account for exploration and evaluation cost. Pre - license costs are expensed in the period in which they are incurred. All licence acquisition, exploration and evaluation costs and directly attributable administration costs are initially capitalised in cost centres by well, field or exploration area, as appropriate.

Capitalised exploration costs and evaluation expenditures, including expenditures to acquire mineral interests in oil and gas properties, related to wells that find proved reserves are transferred from Intangible assets to Property, plant and equipment when the plan for development (PDO) is approved by the Norwegian Authorities or license partners if no government approval is required. All field development costs are capitalised as property, plant and equipment.

Property, plant and equipment
Property, plant and equipment is reflected at cost, less accumulated depreciation and accumulated impairment losses. The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of an asset retirement obligation, if any, exploration cost transferred from intangible assets and, for qualifying assets, borrowing costs.

Expenditure on major maintenance or repairs comprises the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset or part of an asset is replaced and it is probable that future economic benefits associated with the item will flow to the company, the expenditure is capitalised. Inspection and overhaul costs, associated with regularly scheduled major maintenance programs planned and carried out at recurring intervals exceeding one year, are capitalised and amortised over the period to the next scheduled inspection and overhaul. All other maintenance costs are expensed as incurred.

Oil and gas producing properties are depreciated individually using the unit-of-production ("UOP") method as proved and probable developed reserves are produced. The rate of depreciation is equal to the ratio of oil and gas production for the period over the estimated remaining proved and probable reserves expected to be recovered at the beginning of the period. Any changes in the reserves estimate that affect unit-of-production calculations, are accounted for prospectively over the revised remaining reserves. Oil and gas producing assets are depreciated on a field level. Field in the course of development would not be amortised unit production from that field commence. The Company includes undeveloped reserves (proved and probable reserves but not contingent resources) in the denominator, and consequently includes the future development expenditures necessary to bring those reserves into production in the basis for depreciation.

The estimated useful lives of property, plant and equipment are reviewed on an annual basis and changes in useful lives are accounted for prospectively. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in Other income or Operating expenses, respectively, in the period the item is derecognised.

Leases
As of 31 December 2018, the Company only has leases classified as Opertaional leases. By operating leases the costs are charged to the relevant operating expense related caption on a straight line basis over the lease term, unless another basis is more representative of the benefits of the lease to the company.

Intangible assets and goodwill
Intangible assets are stated at cost, less accumulated amortisation and accumulated impairment losses. Intangible assets include expenditure on the exploration for and evaluation of oil and natural gas resources and goodwill.

Intangible assets relating to expenditures on the exploration for and evaluation of oil and natural gas resources are not amortised. When the plan for development (PDO) is approved by the Norwegian Authorities or license partners if no government approval is required, its intangible exploration and evaluation assets are reclassified to Property, plant and equipment.

Goodwill is initially measured at the excess of the aggregate of the consideration transferred and the amount recognised for any non-controlling interest over the fail value of the identifiable assets acquired and liabilities assumed in a business combination at the acquisition date. Goodwill acquired is allocated to each cash generating unit, or group of units, expected to benefit from the combination`s synergies. Following initial recognition goodwill is measured at cost less any accumulated impairment losses.

Financial assets
Trade and other receivables are carried at the original invoice amount, less a provision for doubtful receivables, which is made when there is objective evidence that the company will be unable to recover the balances in full.

Financial assets are presented as current if these contractually will expire or otherwise are expected to be recovered within 12 months after the balance sheet date, or if these are held for the purpose of being traded. Financial assets and financial liabilities are shown separately in the Balance sheet, unless Pandion has both a legal right and a demonstrable intention to net settle certain balances payable to and receivable from the same counterparty, in which case they are shown net in the balance sheet.

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insiginifaicant risk of change in value.

Carrying amount of trade and other receivables and cash and cash equivalents is approximately equal to fair value since these instruments have a short term to maturity.

Inventories
The inventory consists of raw materials (oil) and companys joint venture share of equipment for the drilling of exploration and production wells and are valued at the lower of cost price (based on weighted average cost) and net realisable value.

Impairment of property, plant and equipment and intangible assets other than goodwill
The Company assesses assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Individual assets are grouped based on lowest levels with separately identifiable and largely in dependent cash inflows. Normally, separate cash generating units (CGUs) are individual oil and gas fields or plants. For capitalised exploration expenditures, the CGUs are individual wells. In Pandion Energy AS's line of business, judgement is involved in determining what constitutes a CGU. Development in production, infrastructure solutions, markets, product pricing, management actions and other factors may over time lead to changes in CGUs such as the division of one original CGU into several.

In assessing whether a write-down of the carrying amount of a potentially impaired asset is required, the asset's carrying amount is compared to the recoverable amount. The recoverable amount of an asset is the higher of its fair value less cost of disposal and its value in use. Fair value costs of disposal is determined based on comparable recent arm's length market transactions, or based on Pandion's estimate of the price that would be received for the asset in an orderly transaction between market participants. Value in use is determined using a discounted cash flow model. The estimated future cash flows applied are based on reasonable and supportable assumptions and represent management's best estimates of the range of economic conditions that will exist over the remaining useful life of the assets. Pandion uses an approach of regular updates of assumptions and economic conditions in establishing the long-term forecasts which are reviewed by corporate management and updated at least annually. For assets and CGUs with an expected useful life or timeline for production of expected reserves extending beyond 5 years, the forecasts reflect expected production volumes for oil and natural gas, and the related cash flows include project or asset specific estimates reflecting the relevant period.

Unproved oil and gas properties are assessed for impairment when facts and circumstances suggest that the carrying amount of the asset may exceed its recoverable amount, and at least once a year. Exploratory wells that have found reserves, but where classification of those reserves as proved depends on whether major capital expenditure can be justified or where the economic viability of that major capital expenditure depends on the successful completion of further exploration work, will remain capitalised during the evaluation phase for the exploratory finds. Thereafter it will be considered a trigger for impairment evaluation of the well if no development decision is planned for the near future and there are no firm plans for future drilling in the license.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer be relevant or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

Impairment losses and reversals of impairment losses are presented in the statements of income as Exploration expenses or Depreciation, amortisation and net impairment losses, on the basis of their nature as either exploration assets (intangible exploration assets) or development and producing assets (property, plant and equipment and other intangible assets), respectively.

Impairment of goodwill
Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the CGU, or group of units, to which the goodwill relates. Where the recoverable amount of the CGU, or group of units, is less than the carrying amount, an impairment loss is recognised. Once recognised, impairments of goodwill are not reversed in future periods.

Financial liabilities
Interest-bearing loans and borrowings are initially recognised at cost and subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs as well as discount or premium on settlement.

Financial liabilities are presented as current if the liabilities are due to be settled within 12 months after the balance sheet date, or if these are held for the purpose of being traded.

Carrying amount of trade and other payables, liabilities to related parties and borrowings is approximately equal to fair value since the effect of discounting is not siginificant.

Derrivative financial Instruments
The company has entered into derivative contracts through the financial year. The majority of contracts are OTC transactions. OTC transactions consist of: (i) contracts that are bilaterally negotiated and settled between Pandion and the counterparty of the contract and (ii) contracts that are bilaterally negotiated and then cleared through a central counterparty (CCP).

Put options are entered into for commodity price hedging. These derivative financial instruments are initially recognised at fair value on the date on which the contracts are entered into and are subsequently re-measured at fair value through profit and loss. The impact of these commodity-based derivative financial instruments is recognised in the statements of income as other income.

Cross currency swaps (CCS) have been entered into for hedging foreign currency risk arising from the Company`s bond issuance in NOK. Further the interest rate risk arising from the aggregate exposure of the bond issuance and cross currency swaps is hedged using Interest rate swaps (IRS). Currently, Pandion Energy has chosen to apply hedge accounting to their CCS and IRS. The objective of using hedge accounting under IFRS 9 is to reflect the effect of the Company`s risk management activities in the Financial statements. Please see note 23 for further details.

Borrowing costs and capitalisation of interest
Interest costs and arrangement fees on borrowings to finance the construction of property, plant an equipment are capitalised during the period of time that is required to complete and prepare the asset for its intended use, which is defined as the development phase. Other borrowing costs are expensed when incurred. The capitalisation of borrowing costs is made monthly based on the yearly average interest for the comapny. The basis for the monthly capitalisation is the capitalised assets for each project.

Opertaing cost
The Company presents its payroll and operating costs based on the functions in development, operational and exploration activities respectively, based on allocation of registered hours worked.

Provisions
Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised under interest and other financial expenses in Net financial items.

Asset retirement obligations (ARO)
Provisions for ARO costs are recognised when the Company has an obligation (legal or constructive) to dismantle and remove a facility or an item of property, plant and equipment and to restore the site on which it is located, and when a reasonable estimate of that liability can be made. The amount recognised is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. Cost is estimated based on current regulation and technology, considering relevant risks and uncertainties. The discount rate used in the calculation of the ARO is determined using an estimated risk-free interest rate, adjusted for risk specific to the liability. Normally an obligation arises for a new facility, such as an oil and natural gas production or transportation facility, upon construction or installation. An obligation may also crystallise during the period of operation of a facility through a change in legislation or through a decision to terminate operations, or be based on commitments associated with the company's ongoing use of pipeline transport systems where removal obligations rest with the volume shippers. The provisions are classified under Provisions in the balance sheet.

When a provision for ARO cost is recognised, a corresponding amount is recognised to increase the related property, plant and equipment and is subsequently depreciated as part of the costs of the facility or item of property, plant and equipment. Any change in the present value of the estimated expenditures is reflected as an adjustment to the provision and the corresponding property, plant and equipment. When a decrease in the ARO provision related to a producing asset exceeds the carrying amount of the asset, the excess is recognised as a reduction of depreciation, amortisation and net impairment losses in the statements of income. When an asset has reached the end of its useful life, all subsequent changes to the ARO provision are recognised as they occur in operating expenses in the statements of income.

Critical accounting estimates and judgements
Preparation of the financial statements requires the Company to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, as well as disclosures of contingencies. Actual results may ultimately differ from the estimates and assumptions used. The estimates and the underlying assumptions are reviewed on an ongoing basis. Changes in estimates will be recognised when new estimates can be determined with certainty.

The matters described below are considered to be the most important in understanding the key sources of estimation uncertainty that are involved in preparing the financial statements and the uncertainty that could most significantly impact the amounts reported on the result of operations, financial position and cash flows.

Proven and probable oil and gas reserves
Proven and probable oil and gas reserves have been estimated on the basis of industry standards. The estimates are based on internal information and information received from the operators. Oil and gas reserves are estimated by the Company's experts in accordance with industry standards. Proven and probable oil and gas reserves consist of the estimated quantities of crude oil, natural gas and condensates shown by geological and technical data to be recoverable with reasonable certainty from known reservoirs under existing economic and operational conditions, i.e. on the date that the estimates are prepared. Current market prices are used in the estimates, except for existing contractual future price changes.

Proven and probable reserves and production volumes are used to calculate the depreciation of oil and gas fields by applying the unit-of production methodology. Reserve estimates are also used as basis for impairment testing of licence-related assets. Changes in petroleum prices and cost estimates may change reserve estimates and accordingly economic cut-off, which may impact the timing of assumed decommissioning and removal activities. Changes to reserve estimates can also be caused by updated production and reservoir information. Future changes to proven and probable oil and gas reserves can have a material effect on depreciation, life of field, impairment of licence-related assets, and operating results.

Carrying value of intangible exploration and evaluation assets
Where a project is sufficiently advanced, the recoverability of intangible exploration assets is assessed by comparing the carrying value to internal and operator estimates of the net present

value of projects. Intangible exploration assets are inherently judgemental to value. The amounts for intangible exploration and evaluation assets represent active exploration projects. These amounts will be written off to the Statements of Income as exploration costs unless commercial reserves are established or the determination process is not completed and there are no indications of impairment. The outcome of ongoing exploration, and therefore whether the carrying value of exploration and evaluation assets will ultimately be recovered, is inherently uncertain.

Goodwill

The Company test whether goodwill has suffered any impairment on annual basis. The recoverable amount of cash genertaing unit (CGU) is determined based on value-in-use calculations which require the use of assumptions. Where the recoverable amount of CGU, or group of units, is less than the carying amount an impairment loss is recognised.

Asset retirement obligations

The Company has obligations to decommission and remove offshore installations at the end of the production period. The costs of these decommissioning and removal activities require revisions due to changes in current regulations and technology while considering relevant risks and uncertainties. Most of the removal activities are many years into the future, and the removal technology and costs are constantly changing. The estimates include assumptions of the time required and the day rates for rigs, marine operations and heavy lift vessels that can vary considerably depending on the assumed removal complexity. As a result, the initial recognition of the liability and the capitalised cost associated with decommissioning and removal obligations, and the subsequent adjustment of these balance sheet items, involve the application of significant judgement.

Tax

The Company may incur significant amounts of income tax payable or receivable, and recognises significant changes to deferred tax or deferred tax assets. These figures are based on management's interpretation of applicable laws and regulations, and on relevant court decisions. The quality of these estimates is highly dependent on management's ability to properly apply a complex set of rules and identify changes to the existing legal framework.

NOTE 3 FINANCIAL RISK MANAGEMENT

General information relevant to financial risks

Pandion Energy`s activities expose the Company to market risk (including commodity price risk, currency risk and interest rate risk) liquidity risk and credit risk. The Company`s approach to risk management includes assessing and managing risk with focus on achieving the highest risk adjusted returns for the shareholders.

Commodity price risk

The Company operates in the crude oil and natural gas market and are exposed to fluctuations in hydrocarbon prices that can affect revenues. Commodity price risks represent the Company`s most important market risk going forward. To manage this risk, Pandion Energy secure cash flow from sale of crude oil through commodity price hedging. At year end 2018 the Company has purchased put options through 2019 and part of Q1 2020.

Currency risk

Currency risk arise from multi-currency cash flows within the Company. Pandion Energy is exposed to foreign currency exchange risk on its purchase and sales, including financing costs that are denominated in currencies other than USD. The Company will preferable raise funding in USD. However the senior unsecured bond was, due to market consideration, raised in NOK. To mitigate the currency risk arising from the debt issuance the Company has entered into cross currency swaps in 2018. The NOK denominated bond is hedged with three USD/NOK floating cross currency swaps.

Interest-rate risk

The Company`s interest rate risk arises from its interest bearing borrowings. See note 15 for information about the floating interest rate conditions on the Revolving Exploration Loan Facility. Borrowings issued with floating interest rate conditions expose the Company to cash flow interest rate risk. The Company has entered into Interest rate swaps in 2018. The objective is to reduce interest rate risk arising from the debt issuance, i.e. hedge of interest rate risk arising on variable interest payable on the bond. The NOK denominated bond is hedged with three USDNOK floating for floating cross currency swaps. Credit risk on the debt is not designated as part of the hedge relationship.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet obligations of financial liabilities when they become due. The purpose of liquidity management is to make certain that the Company has sufficient funds available at all times to cover its financial liabilities. To identify current and future financing needs, Pandion Energy carries out short-term (12 months) and long-term (five years) forecasts to plan the Company`s liquidity. These forecasts are updated regularly, for various scenarios and from part of the decision basis for the Company`s management and Board of Directors. Pandion Energy completed in April 2018 its first major debt financing package including a reserve based lending (RBL) facility of USD 150 million with an accordion of USD 150 million, and a senior unsecured bond of NOK 400 million.

Credit risk

Credit risk arises from cash and cash equivalents, contractual cash flows of debt investments carried at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL), favourable derivative financial instruments and deposits with banks and financial institutions. There are also minor credit exposures related to trade receivable and overcall joint venture toward license partners. The Company`s license partners are credit worthy oil companies and cash and cash equivalents are receivable from banks.

NOTE 4 BUSINESS COMBINATION

There has been no acquisiton of business combinations in 2018.

On 22 December 2017, Pandion Energy AS finalised the acquisition of 10 per cent interest in the Valhall and Hod oil fields. The transaction was announced on 4 December 2017. Pandion Energy AS paid a cash consideration of USD 170 million in addition to settlement of effective period adjustment of USD 1 million.

The closing of the transaction took place on 22 December 2017. For accounting purposes the transaction date is set to 31 December 2017. For tax purposes, the effective date was 1 January 2017. The acquisition is regarded as a business combination and has been accounted for using the acquisition method of accounting in accordance with IFRS 3. A purchase price allocation (PPA) has been performed to allocate the consideration to fair value of assets and liabilities. There have been no material adjustments in the allocation of values in the PPA after the closing of the transaction.

Each identifiable asset and liability is measured at its acquisition date fair value based on guidance in IFRS 3. The standard defines fair value as 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. This definition emphasises that fair value is a market-based measurement, not an entity-specific measurement. When measuring fair value, the group uses the assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. Acquired property, plant and equipment have been valued using discounted cash flow, while intangible assets (value of licenses) have been valued using the income approach.

The recognised amounts of assets and liabilities assumed as at the date of the acquisition were as follows:

	2017
(Amounts in USD`000)	
Assets	
Goodwill	121 495
Deferred tax assets	149 835
Non-producing oil fields	66 563
Producing oil fields	129 777
Current assets, excluding cash	16 306
Cash and cash equivalents	-
Total assets	**483 976**
Debt & equity	
Purchase price	170 959
Deferred tax liability (oil fields)	118 233
Abandonment provision (ARO)	182 198
Current liabilities	12 586
Total Debt & equity	**483 976**

The goodwill of USD 122 million arises principally because of the requirement to recognise deferred tax assets and liabilities for the difference between the assigned fair values and the tax bases of assets acquired and liabilities assumed in a business combination. Licenses on the NCS can only be sold in a market after tax, based on a decision made by the Norwegian Ministry of Finance pursuant to the Petroleum Taxation Act Section 10. The assessment of fair value of such licenses is therefore based on cash flows after tax. Nevertheless, in accordance with IAS 12 Sections 15 and 19, a provision is made for deferred tax corresponding to the tax rate multiplied with the difference between the acquisition cost and the tax base. The offsetting entry to this deferred tax is goodwill. Hence, goodwill arises as a technical effect of deferred tax (technical goodwill). If the acquisition had taken place at the beginning of 2017, year to date revenue would have increased by USD 67 million while EBITDA have increased by USD 43 million.

NOTE 5 ASSET ACQUISITIONS AND DISPOSALS

Acquisition of exploration licenses:

Acquired in 2018:

Licence	Interests acquired
PL 820 S	10 %

Pandion Energy undertook a transaction with Wintershall Norge AS to acquire a 10% working interest in PL 820S. The effective date is 1 January 2018 and the transaction is approved by Norwegian Authorities with a completion date in December 2018. The assignment of participating interests in this license purchase has been accounted as an acquisition of assets. The considera-tion is recognised as an intangible asset in the balance sheet statements of the Company.

Acquired in 2017:

Licence	Interests acquired
PL 636	20 %
PL 746 S	30 %
PL 776	40 %
PL 786	50 %
PL 791	50 %
PL 826	30 %

In June 2017 Pandion closed an agreement with Tullow to acquire interests in the exploration licenses PL 636 (Cara discovery), PL 746 S, PL 776, PL 786, PL 791 and PL 826 on the Norwegian continental shelf (NCS). The assignment of participating interests in this license purchase is an acquisition of assets. The consideration is recognised as an intangible asset in balance sheet of Pandion Energy AS.

Disposals of exploration licenses

Relinquishment in 2018:

Licence	Interests disposed
PL 746 S	30 %
PL 786	50 %
PL 826	30 %

In 2018 the relinquishment of PL746S, PL786, PL 826 were accounted for due to licence decisons of relinquishment.

Relinquishment in 2017:

Licence	Interests disposed
PL 791	50 %

NOTE 6 INVESTMENTS IN JOINT VENTURES

Interests in production licenses on the Norwegian Continental Shelf as of:

Licence source	Licence portfolio	Jan-19	Dec-18	Jan-18
Acquisitions	PL 006 B Valhall	10 %	10 %	10 %
Acquisitions	PL 033 B Valhall	10 %	10 %	10 %
Acquisitions	PL 033 Hod	10 %	10 %	10 %
Acquisitions	PL 636 Cara	20 %	20 %	20 %
Acquisitions	PL 746 S	30 %	30 %	30 %
Acquisitions	PL 776	40 %	40 %	40 %
Acquisitions	PL 786	50 %	50 %	50 %
Acquisitions	PL 820 S	10 %	10 %	0 %
Acquisitions	PL 826	30 %	30 %	30 %
APA 2017	PL 912	40 %	40 %	40 %
APA 2017	PL 929	20 %	20 %	20 %
APA 2018	PL 636B	20 %	0 %	0 %
APA 2018	PL 985	20 %	0 %	0 %

In January 2018 the Company was awarded two licenses in the announced APA 2017 round. Following the award the Company did hold a total of 10 licenses.

In January 2019 the Company was awarded two licenses in the recently announced APA 2018 round. Following the award the Company holds a total of 13 licenses.

Note 7 REVENUES AND OTHER INCOME

Revenues	2018	2017
(Amounts in USD`000)		
Oil	90 447	-
Gas	8 271	-
NGL	1 870	-
Total revenues	**100 588**	**-**

All revenues are generated from activities on the Norwegian Continental Shelf (NCS).

Other income	2018	2017
(Amounts in USD`000)		
Realised gain/(loss) on oil derivates	(1 664)	
Unrealised gain/(loss) on oil derivates	4 089	-
Total other income	**2 425**	**-**

NOTE 8 EXPLORATION AND OPERATING EXPENSES

Exploration expenses	2018	2017
(Amounts in USD`000)		
Expensed cost, seismic and studies	-	3 935
Expensed cost, general and administrative	6 964	6 277
Expensed previously capitalised other exploration cost	1 777	114
Expensed other exploration cost	113	-
Total	**8 854**	**10 327**

Operation expenses	2018	2017
(Amounts in USD`000)		
Change in inventories	6 452	-
Transportation cost	5 212	-
Production cost	26 174	-
Other cost	1 438	-
Total	**39 276**	**-**

NOTE 9 REMUNERATION

	2018	2017
(Amounts in USD`000)		
Salaries	7 219	3 003
Social security tax	752	307
Pension expenses	382	173
Other remuneration	136	110
Total payroll expenses	**8 488**	**3 593**

The Company had an average of 19,7 employees in 2018 compaired to 10,8 in 2017. The number of employees as of year-end was 22 compared to 15 in the end of 2017.

Salaries include bonuses in addition to base salary and vacation pay. The employees will, if certain objectives are met, each year be granted a bonus as a percentage of the total base salary in the range of 0-50%. It will be up to the Board of Directors to decide whether to pay bonuses on the previous years performance. For 2018, the bonus was disbursed in March 2019.

In addition Management Team and Key Employees take part in a long term incentive plan offering rewards by an eventual exit event of the Company`s main shareholder Kerogen.

The company has a defined contribution plan for its employees. With a defined contribution plan the Company pays contributions to an insurance company. After the contribution has been made the Company has no further commitment to pay. The contribution is recognised as payroll expenses. Prepaid contributions are reflected as an asset (pension fund) to the degree the contribution can be refunded or will reduce future payments.

Compensation to Chief Executive Officer (CEO) and the Board of Directors (BoD)

Compensation to CEO	2018	2017
(Amounts in USD`000)		
Salaries	304	201
Bonuses	151	-
Pension expenses	21	14
Other remuneration	21	17

The CEO is part of a bonus scheme with annual benefits ranging from 0-50% of base salary, pending certain performance related criteria equal to other employees. In addition the CEO takes part in a long term incentive plan offering rewards by an eventual exit event of the Company`s main shareholder Kerogen. The CEO has the right to severance pay of 6 months if certain conditions should occur. See note 18 for details on shares in the Company owned by the CEO.

The compensation to the Chairman of The Board was USD 50 000 in 2018. There was no payments to the Board of Directors in 2017.

No loans have been granted by Pandion Energy and no guarantees have been issued to the CEO or any member of the Board of Directors.

NOTE 10 RESTRICTED BANK DEPOSITS

	2018	2017
(Amounts in USD`000)		
Restricted bank deposits		
Withheld employee taxes	357	190

NOTE 11 AUDITORS' REMUNERATION

(Amounts in USD`000)	2018	2017
Audit fee	82	-
Other attestation services	12	-
Other services	40	5
Total	**134**	**5**

NOTE 12 FINANCIAL ITEMS

(Amounts in USD`000)	2018	2017
Net foreign exchange gains (losses)	(874)	1 925
Interest income	165	52
Amortised loan costs	(449)	-
Accretion expense asset retirement obligations	(6 462)	-
Interest expenses	(8 930)	(168)
Other financial items	(1 100)	(26)
Net financial items	**(17 650)**	**1 784**

NOTE 13 INCOME TAXES

(Amounts in USD`000)	2018	2017
Current year payable taxes / (exploration refund)	(9 102)	(10 751)
Change deferred tax balance sheet	32 544	(27 150)
Change deferred tax from acquisition recorded directly to balance sheet or OCI	727	31 380
Adjustments related to prior periods	(32)	-
Income tax expense	**24 137**	**(6 521)**
Income tax expense in OCI	(727)	-
Total income tax expense	**23 410**	**(6 521)**

Reconciliation of Norwegian statutory tax rate to effective tax rate:

	2018	2017
(Amounts in USD`000)		
Income before tax:	25 682	9 102
Calculated income taxes at:		
Statutory tax rate 23%	5 907	2 184
Petroleum surtax at statutory tax rate 55%	14 125	4 915
Tax effect of:		
Tax effect related to permanent differences	(309)	(4)
Effect of items allocated onshore	7 818	(607)
Change in deferred tax related to financial items	(3 857)	-
Effect change tax rates	(53)	(11)
Effect related to interest on losses carry forward	(83)	30
Uplift	(1 434)	14
Adjustments prior period	(1 352)	-
Deferred tax assets not recognised	157	-
Translation differences	3 218	-
Total	**24 137**	**6 521**
Effective tax rate	94,0 %	71,6 %

When computing the petroleum tax of 55% (56% from 2019) on income from the Norwegian Continental Shelf, a tax-free allowance, or uplift, is granted at a rate of 5.3% per year (5.2% per year from 2019). The uplift is computed on the basis of the original capitalised cost of offshore production installations. The uplift may be deducted from taxable income for a period of four years, starting in the year in which the capital expenditure is incurred. Unused uplift may be carried forward indefinitely. At year end 2018 unrecognised future uplift credits related to capitalised cost amounted to USD 4 million, and recognised future uplift amounted to USD 1 million.

Significant components of deferred tax assets and liabilities were as follows:

	2018	2017
(Amounts in USD`000)		
Deferred tax assets on		
Losses carry forward	7 906	4 371
Loss carry forward not recognised	(157)	-
Future uplift recognised in PPA	1 251	2 301
Uplift carry forward	4 388	2 012
Inventories	-	1 325
Asset retirement obligations	127 578	142 115
Other items	1 804	6 140
Total deferred tax assets	142 770	158 265
Deferred tax liabilities on		
Property, plant and equipment	(133 713)	(118 726)
Capitalised exploration expenditures and capitalised interest	(10 479)	(9 321)
Inventories	(1 254)	-
Other items	(2 526)	(2 876)
Total deferred tax liabilities	(147 972)	(130 923)
Net deferred tax liabilities	**(5 202)**	**27 342**

The movement in deferred income tax:

	2018	2017
(Amounts in USD`000)		
Deferred income tax at 1 January	27 342	-
Change deferred tax from acquisition recorded directly to balance sheet	-	31 602
Charged to the statement of income	(31 818)	(4 260)
Charged to OCI	(727)	-
Deferred income tax asset at 31 December	(5 202)	27 342

NOTE 14 PROPERTY, PLANT AND EQUIPMENT

	Oil and gas assets	Tools and equipment	Total
(Amounts in USD`000)			
Carrying amount at 31 December 2016	-	-	-
Additions	-	105	105
Acquisition	129 815	-	129 815
Transfers	-	-	-
Depreciation	-	19	-
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**
Estimated useful lives (years)	UoP	3-10	

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

NOTE 15 INTANGIBLE ASSETS

	Goodwill	Exploration and evaluation assets	Total
(Amounts in USD`000)			
Carrying amount at 31 December 2016	-	-	-
Acquisition	124 785	74 795	199 580
Capitalised license costs	-	3 718	3 718
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 capitalised	-	(1 777)	(1 777)
Transfers	-	(28 130)	(28 130)
Carrying amount at 31 December 2018	**124 785**	**59 110**	**183 895**

The amount of Goodwill entirely relates to the acquisition of interest in the Valhall and Hod oil fields.

Expensed exploration expenditures previously capitalised relates to licenses PL746S, PL786 and PL826 decided for relinquishment in the licenses.

NOTE 16 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 impairments of oil and gas properties or goodwill were recognised in 2018.

In the assessment of whether an impairment is required at 31 December 2018. Pandion Energy has used a combination of the oil price forward curve at year end from 2019 to 2022 and a mean of market participant`s view from 2023 and onwards, a future cost inflation rate of 2% per annum and a discount rate of 8% to calculate the future post tax cash flow.

NOTE 17 BORROWINGS

Revolving Exploration Loan Facility

(Amounts in USD`000)	Facility Currency	Utilised amount	Undrawn facility	Interest	Maturity	Carrying amount
At 31 December 2018	NOK	6 236	39 802	NIBOR + 1.25 %	Dec 2019	5 975
At 31 December 2017	NOK	5 922	42 829	NIBOR + 1.25 %	Dec 2018	5 618

The total credit limit for the Company at 31 December 2018 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.

Carrying amount of assets provided as security for the Revolving Exploration Loan Facility

(Amounts in USD`000)	2018	2017
Current tax receivable - exploration refund	9 094	10 827
Total	**9 094**	**10 827**

The Company`s obligations to the lenders are secured by a first priority charge over the pledge bank account, first priority assignment of the tax refund and first priority assignments of any insurances taken out from time to time with respect to the Borrower`s Licenses for which no plan for development and operation (PUD) has been submitted.

Reserve Base Lending Facility Agreement (RBL)

(Amounts in USD`000)	Facility currency	Utilised amount	Undrawn facility	Interest	Maturity	Carrying amount
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.

** EBITDAX - Earnings before interest, tax, depreciation, amortisation and exploration*
*** Corporate sources - Cash balance, revenues, equity and external funding*
**** Corporate uses - Operating expenditures, capital expenditures, abandonment expenditures, general and administration costs, exploration costs, acquisition costs and financing costs*

Carrying amount of assets provided as security for the Reserve Base Lending Facility Agreement (RBL):

(Amounts in USD`000)	2018
Bank accounts excluding pledge account EFF	17 065
Borrowing base assets (including Duva field)*	100 120
Trade receivables	2 274
Inventory	1 738
Shareholder loans	-
Hedging agreements	8 075
Total	**129 272**

* The carrying amount of the assets includes working capital and retirement obligation related to the asset, and does not include associated goodwill and tax values.

The Company`s obligations to the lenders under the RBL Facility are secured by a first priority security over: i) shares in and any shareholder loans to the Company, (ii) bank accounts (excluding pledge bank account pursuant to the EFF facility), (iii), license interests in all borrowing base assets and Duva field, (iv) hedging agreements (v) any claims under RBL insurances as well as (vi) floating charges over trade receivables and Inventory.

Unsecured Bond

(Amounts in USD`000)	Facility currency	Utilised amount	Undrawn facility	Interest	Maturity	Carrying amount
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. For further information about the currency and interest rate swaps see the note 23.

Non-current Liabillities to related parties

By entering into a subscription agreement wiht 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 based on contractual undiscounted cash flows

(Amounts in USD`000)	2017	2018
Less than 12 months	5 922	6 236
1 to 5 years	-	50 967
Over 5 years	-	74 100
Total	**5 922**	**131 303**

NOTE 18 TRADE AND OTHER RECEIVABLES

Other receivables mainly consist of joint venture receivables, prepaid expenses and other receivables related to Pandion Energy's joint venture licenses.

NOTE 19 EQUITY AND SHAREHOLDERS

(Amounts in USD`000)

	Share Capital	Other paid in capital	Other equity	Total equity
Share issue at incoporation 11.11.2016	3	-	-	3
Share issue	21 255	-	-	21 255
Share issue - unregistered	-	51 251	-	51 251
Net loss	-	-	(2 599)	(2 599)
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	**113 491**	**-**	**(3 631)**	**109 861**

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 transfered 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.

NOTE 20 ASSET RETIREMENT OBLIGATIONS

(Amounts in USD`000)	Asset retirement obligations
Non-current portion at 31 December 2017	143 198
Current portion at 31 December 2017	39 000
Asset retirement obligations at 31 December 2017	**182 198**
New or increased provisions	-
Effects of change in estimates	316
Amounts charged against asset retirement obligations	(25 415)
Effects of change in the discount rate	-
Reduction due to divestments	-
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

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

NOTE 21 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Financial assets
(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**

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 year end 2018 Pandion Energy had put in place a hedging programme through 2019 and Q1 2020. The entire hedging program is based on put options with 55 or 56 USD/bbl strike price.

NOTE 22 TRADE, OTHER PAYABLE AND PROVISIONS

	2018	2017
(Amounts in USD`000)		
Trade payables	1 770	4 835
Joint venture payables	16 443	6 596
Other non-trade payables, accrued expenses and provisions	7 286	1 882
Trade, other payables and provisions	**25 499**	**13 313**

NOTE 23 DESIGNATED ACCOUTNING HEDGES

The company apply hedge accounting to manage currency and interest rate risk arising from a 400 MNOK floating rate bond debt. The company has chosen to apply hedge accounting to their Cross Currency Swap (CCS) and Interest Rate Swap (IRS). Ultimately, the effect of the hedge accounting is to transform the NOK floating borrowing cost into an interest expense in Pandion Energy's functional currency (USD) at a fixed rate.

Amount, timing and uncertainty of cash flows

Cross-currency swap

Cross-currency interest rate swaps are transactions in which counterparties exchange principal and interest flows in different currencies over a period of time. These contracts are used to manage both currency and interest rate exposures. In our cross-currency interest rate swap we are required to pay floating rate USD and receive floating rate NOK. Below we have listed the key terms of our cross-currency interest rate swap.

Terms of Cross-currency swap	
Start date	20th April 2018
Effective date	4th April 2018
Maturity date	4th October 2022
Notional leg 1	NOK 400 000 000
Notional leg 2	USD 51 609 606
Hedge ratio	1:1
Final exchange (notional)	30th September 2022
Floating rate leg 1	NOK-NIBOR-NIBR
Spread leg 1	7.25 %
Floating rate leg 2	USD-LIBOR-BBA
Spread leg 2	7.70 %

Interest Rate Swap

Interest rate swaps are derivative contracts in which two counterparties have agreed to exchange cash flows over a period of time based on rates applied to a specified notional principal amount. In our interest rate swap we are required to pay a fixed interest rate in exchange for a variable market interest rate determined from time to time, both calculated on a specified notional principal amount. No exchange of principal amount takes place. This allow us to convert our exposure to cash flow variability from our variable rate instrument to fixed interest rate. Below we have listed key terms of our interest rate swaps.

Terms of Interest Rate Swaps	
Start date	26th April 2018
Effective date	5th July 2018
Maturity date	4th October 2018
Notional amount	USD 51 609 606
Floating rate leg 1	USD-LIBOR-BBA
Fixed rate leg 2	2.91%
Final exchange	4th October 2022

For the hedge relationships mentioned above, hedge effectiveness is assessed at the inception of the hedge relationship and on an ongoing basis. The sources of hedge ineffectiveness are mainly attributed to the following:

- A change in the credit risk of Pandion Energy or the Counterparties to the swap contracts; and
- A reduction or modification in the hedged item (i.e. debt repayment).

Effects of hedge accounting on the financial position and performance
The following table provides a summary of financial instruments designated as hedging instruments:

(Amounts in USD`000)

Cash flow hedges		Nominal amount of the hedging instrument	Assets	Liabilities	Line item in the statement of financial position where the hedging instrument is located	Changes in fair value used for calculation hedge in-effectiveness for 2018
Foreign exchange risk	Cross currency swap	51 610	-	7 786	Hedging derivatives	(7 786)
Interest rate risk	Interest rate swap	51 610	-	714	Hedging derivatives	(714)

Hedging reserve	Interest rate risk	Foreign exchange risk	Sum
Opening balance hedge reserve	-	-	-
Added to OCI: Change in fair value of hedging instrument recognised in OCI	(788)	(8 343)	(9 131)
Reclassified to statements of income – from OCI	1 003	4 825	5 828
Tax	(47)	774	727
Closing balance - hedge reserve	**167**	**(2 744)**	**(2 577)**

Amount reclassified to profit and loss

Tranfsers due to hedge item affecting profit or loss	
Interest rate risk	1 003
Foreign exchange risk	4 825

Tranfsers due to hedge item no longer expected to occur	
Interest rate risk	-
Foreign exchange risk	-

Financial Statement lines effected:	
Interest rate risk	Net Financial Income
Foreign exchange risk	Net Financial Income

NOTE 24 OPERATING LEASES AND LONG TERM COMMITMENTS

Pandion Energy has entered into an operating lease for office facilities. The contract contain renewal options for another three years. The lease has a arrangement with contingent payment if the Company bring the lease to an end after three year. The Contingent payment will then be equal to six months rental payment. The lease does not contain any restriction on the company`s dividend policy or financing.

In addition the Company has lease commitments pertaining to its ownership in partner operated oil and gas field where the operator has entered into lease agreements for rigs on behalf of the partners.

For Valhall, the operator has entered into a lease agreement for Maersk Invincible, delivered in May 2017. The contract period is five years, with an additional two years option period. Further operator on Valhall has entered into a lease agreement for the Maersk Reacher as an accomodation service unit, delivered in October 2018. The contract period is two years.

The information in table below shows future minimum lease payments due under non-cancellable operating leases as at 31 December 2018.

Office facilities	2018	2017
Within 1 year	279	204
1 to 5 years	954	312
After 5 years	-	-
Total	**1 233**	**516**

Partner-licenses rigs		
Within 1 year	10 403	8 042
1 to 5 years	21 468	27 210
After 5 years	-	-
Total	**31 871**	**35 252**

Two exploration wells (PL 820S and Valhall) are decided to be drilled during 2019 where lease agreements for a rig have been entered into by the operator on behalf of partners. These lease commitments are not included in above overview.

NOTE 25 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Company is obliged to carry parts of the sellers` shares of drilling costs for the acquired license PL 820S. Pandion Energy is further required to participate in the approved work programmes for the licenses. The Company has future contractual obligations related to development projects in non-operated licenses of approximately USD 2 million.

Pandion`s operations involve risk of damages, including pollution. The Company has insured its pro rata liability on the NCS on a par with other oil companies. The Company was not subject to any legal disputes at 31 December 2018.

NOTE 26 RESERVES (UNAUDITED)

Proved and probable reserves	mill barrels oil equivalents (mmboe)
Balance at 1 January 2018	28,6
Revision of previous estimates	(0,1)
Discoveries, additions and extensions	1,9
Acquisition of reserves	
Divestment of reserves	
Year 2018 production	(1,5)
Total reserves at 31 December 2018	**28,9**

The Company`s proved and probable oil and gas reserves (2P) have been at the end of 2018 estimated to approximately 28.9 mmboe compared to approximately 28.6 mmboe in 2017. Reserves are calculated in accordance with the Norwegian Petroleum Directorate's requirements (NPD).

NOTE 27 SUBSEQUENT EVENTS

Pandion Energy has undertaken a transaction with Aker BP to acquire 30% working interest in PL 842. An exploration well is decided to be drilled during 2019 in this license.The effective date will be 1 January 2019. The transaction is subject to approval by the Norwegian Ministry of Petroleum and Energy.

In January 2019 Pandion Energy AS was awarded 2 licenses in the APA 2018 round. In March 2019 the relinquishment of PL 746S and PL 826 were approved by the Norwegian Ministry of Petroleum and Energy. Following the award and relinquishment the Company now holds a total of 11 licenses.

In Februar 2019 the PL 636 license partners submitted the development plan for the Duva project (formerly known as Cara discovery) in the Norwegian sector of the North Sea to the Ministry of Petroleum and Energy. Pandion Energy holds a 20% interest in the Duva project. The Duva field will be developed as subsea tie-back connecting to the nearby Gjøa platform. Duva's recoverable reserves are estimated at 88 million barrels of oil equivalents and is expected to yield around 30 thousand barrels of oil equivalent per day at maximum production. First production from the project is expected in late 2020/early 2021. The project is pending approval by the Norwegian Ministry of Petroleum and Energy.

Auditor´s report

Deloitte.

To the General Meeting of Pandion Energy AS

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Pandion Energy AS, which comprise the balance sheet as at 31 December 2018, the income statement, statement of comprehensive income and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements are prepared in accordance with law and regulations and give a true and fair view of the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with simplified application of international accounting standards according to section 3-9 of the Norwegian Accounting Act.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for the other information. The other information comprises information in the annual report, except the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion 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, 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 in this regard.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (management) are responsible for the preparation and fair presentation of the financial statements in accordance with simplified application of International Accounting Standards according to the Norwegian Accounting Act section 3-9, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Deloitte.

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Independent Auditor's Report -
Pandion Energy AS

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

Auditor's 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 auditor's 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 laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report concerning the financial statements and the going concern assumption is consistent with the financial statements and complies with the law and regulations.

Deloitte.

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Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the Company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 3 April 2019
Deloitte AS

Mette Herdlevær

Mette Herdlevær
State Authorised Public Accountant (Norway)


THIALF
PANAMA R.P.

Jacket installation at Valhall Flank West, May 2019.
Photo: Woldcam / Aker BP

Quality is the best business plan.

John Lasseter

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