PANDION ENERGY

A sharp eye for the NCS opportunities

Interim Financial Statements (unaudited)

Third quarter 2018

Contents

Introduction

PANDION ENERGY

General information

These interim finacial statements for Pandion Energy AS ("the Company") have been prepared to comply with the **Revolving exploration finance facility agreement dated 13 November, 2017,** the **Borrowing base facility agreement dated 9 April 2018** and **Bond terms for senior unsecured bond dated 3 April 2018**. These interim financial statements have not been subject to review or audit by independent auditors.

Change in functional currency

IAS 21 states that an entity is required to determine a functional currency based on the primary economic environment in which it operates and generally records foreign currency transactions. Pandion Energy has assessed that the purchase of Valhall and Hod completed 22 December 2017 triggered a change in functional currency from NOK to USD. Main drivers for the change, effective from 1 January 2018 were the associated revenues from sale of crude oil in USD and new financing in USD.

Introduction

Accounting principles

These interim financial statements have been prepared on the bases of simplified IFRS pursuant to the Norwegian Accounting Act §3-9 and regulations regarding simplified application of IFRS issued by the Norwegian Ministry of Finance on 3 November 2014, thus the interim financial statements do not include all information required by simplified IFRS and should be read in conjunction with the Company annual financial statement as at 31 December 2017.

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

As described in the company's annual financial statements for 2017, two new accounting standards entered into force from 1 January 2018, IFRS 9 and IFRS 15. The implementation of the new standards have not had any material impact on the company's financial statements.

As 2018 is the first year with interim financial statements of Pandion Energy, there are no comparable quarterly figures for earlier periods in the report. 2017 was the first year of operations for the Company, with no operating income or operating expenses during 2017.

For further detailed information on accounting principles, please refer to the Financial Statements for 2017.

Third quarter 2018 summary

Total income was USD 28.2 million, and reported operating profit USD 14.0 million. EBITDAX amounted to USD 18.4 million. Net loss was USD 3.6 million.

The total income was driven by revenues related to the Valhall and Hod fields, mainly from oil sales (352 kboe in Q3 compared to 234 kboe in Q2). Average realised oil price was USD 75.5 per bbl in Q3 compared to USD 75.7 per bbl in Q2.

The operating expenses amounted to USD 9.5 million.

Investments in fixed assets amounted to USD 9.2 million, driven by investments in the Valhall field, mainly Flank West and IP drilling program.

Abandonment expenditures were USD 8.4 million, driven by the ongoing campaign to plug and abandon old wells on the Valhall field.

The company’s interest-bearing debt was USD 129.4 million at the end of the third quarter.

Operational review

Production from the Valhall and Hod fields was 4.0 thousand barrels of oil equivalents per day («mboepd») net to Pandion during third quarter. This represents a seven percent increase from the previous quarter, which was negatively impacted by planned maintenance and reduced production due to drilling operations. As part of the Valhall IP drilling campaign, the operator has tested a new well stimulation method which is expected to significantly reduce the time and cost of new wells. The testing has taken more time than anticipated due to technical difficulties. The first new IP well this year started production in August, several months behind plan. The second well is currently undergoing conventional stimulation, and is expected to start production during the fourth quarter. The P&A campaign at Valhall was completed in early October, and the Maersk Invincible rig has been redeployed to perform drilling elsewhere at the Valhall field. The production efficiency for the Valhall area was 88 percent in the quarter.

Third quarter 2018 summary

PANDION ENERGY

Hedging

The Company has focused on securing liquidity and has entered into an extensive oil price hedging program to reduce the risk related to oil prices. At the end of the third quarter Pandion had put in place a hedging programme through 2019 and Q1 2020. >80% of remaining 2018 pre-tax volumes hedged at USD 55/bbl (USD 53/bbl net of costs) and >70% of 2019 volumes hedged at USD 55/bbl (USD 52/bbl net of costs). For Q1 2020, >40% of the post-tax volumes have been hedged at USD 56/bbl (USD 54/bbl net of costs). The entire existing hedging program is based on put options. Following the increase in the long term oil prices during Q3 the Company had a loss from hedging presented as other gains/(losses).

Statements of income 30 September 2018

PANDION ENERGY

Statements of income

(Amounts in USD`000)	Note	Q3 2018	2018 YTD
Revenues		29 577	76 913
Other gains/(losses)		(1 411)	(4 756)
Total revenues and income		28 166	72 157
Operating expenses		(9 474)	(29 956)
General and administrative expense		(330)	(1 074)
Depreciation, amortisation and net impairment losses	1	(3 030)	(8 645)
Exploration expenses		(1 312)	(3 872)
Total expenses		(14 146)	(43 547)
Profit from operating activities		**14 020**	**28 609**
Net financial items	7	(7 191)	(12 979)
Profit before income tax		**6 829**	**15 630**
Income tax		(10 453)	(17 890)
Net profit		**(3 623)**	**(2 259)**

Statements of income 30 September 2018

PANDION ENERGY

Statements of comprehensive income

(Amounts in USD`000)	Note	Q3 2018	2018 YTD
Net income		(3 623)	(2 259)
Currency translation adjustments		-	-
Items that may be subsequently reclassified to the Statement of income			
Other comprehensive income		-	-
Cash Flow hedges			
Net gain/losses arising from hedges recognised in OCI		226	(3 891)
Net amount reclassified to profit and loss		562	2 659
Tax on items recognised over OCI		(181)	283
Other comprehensive income		607	(949)
Total comprehensive income		**(3 017)**	**(3 208)**

Balance sheet statements 30 September 2018

PANDION ENERGY

Assets

(Amounts in USD`000)	Note	Q3 2018	2017
Property, plant and equipment	1, 3	175 072	129 901
Intangible assets	2, 3	182 201	203 298
Deferred tax assets		4 809	27 342
Tax receivable from exploration refund		4 886	10 827
Prepayments and financial receivables		144	144
Financial asset at fair value through profit or loss		894	-
Total non-current assets		**368 007**	**371 511**
Inventories		4 938	5 200
Trade and other receivables		3 267	5 491
Tax receivable from exploration refund - short term		10 867	-
Cash and cash equivalents		18 522	8 965
Total current assets		**37 594**	**19 656**
Total assets		**405 601**	**391 167**

Balance sheet statements 30 September 2018

PANDION ENERGY

Equity and liabilities

(Amounts in USD`000)	Note	Q3 2018	2017
Share capital	4	113 492	72 509
Other equity	4	(5 807)	(2 599)
Total equity		**107 685**	**69 911**
Asset retirement obligations	5	144 548	143 198
Interest bearing debt	6	115 387	-
Hedging derivatives		3 620	-
Total non-current liabilities		**263 555**	**143 198**
Asset retirement obligations - Short term	5	18 120	39 000
Trade, other payables and provisions		6 072	13 313
Interest bearing loans and borrowing	6	10 169	5 618
Liabilities to related parties		-	120 128
Total current liabilities		**34 361**	**178 058**
Total liabilities		**297 916**	**321 256**
Total equity and liabilities		**405 601**	**391 167**

Statements of cash flows

(Amounts in USD`000)	Q3 2018	2018 YTD
Income before tax	6 829	15 630
Depreciation, amortisation and net impairment losses	3 030	8 645
Accretion of asset removal liability	1 611	5 025
(Increase) decrease in value of financial asset at fair value through profit or loss	1 411	4 756
(Increase) decrease in value of hedges reclassified to profit and loss	562	2 659
(Increase) decrease operational financial asset	(143)	(5 650)
Asset removal cost	(8 375)	(24 556)
Net financial expenses	7 191	12 979
Interest and fees paid	(2 672)	(6 840)
(Increase) decrease in working capital	(7 687)	(14 654)
Net cash flow from operating activities	1 757	(2 005)
Capital expenditures and investments in furniture, fixtures and office machines	(2)	(7)
Capital expenditures and investments in oil and gas assets	(9 169)	(28 571)
Capital expenditures and investments in exploration and evaluation assets	(1 543)	(4 142)
Net cash flow from investing activities	(10 714)	(32 719)
Share capital contribution	-	40 982
Increase interest bearing obligations, loans and borrowing	11 233	123 427
Decrease in liabilities to related parties	-	(120 128)
Net cash flow from financing activities	11 233	44 281
Net change in cash and cash equivalents	2 277	9 557
Cash and cash equivalents at the beginning of the period	16 245	8 965
Cash and cash equivalents at the end of the period	18 522	18 522

PANDION ENERGY

Notes to the interim financial statements

PANDION ENERGY

NOTE 1 PROPERTY, PLANT AND EQUIPMENT

(Amounts in USD`000)	Oil and gas assets	Tools and equipment	Total
Carrying amount at 31 December 2017	129 815	86	129 901
Additions	28 571	7	28 578
Transfers	25 238	-	25 238
Carrying amount at 30 September 2018	183 624	94	183 717
Depreciation	8 618	27	8 645
Carrying amount at 30 September 2018	**175 006**	**66**	**175 072**
Estimated useful lives (years)	UoP	3-10	

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

Notes to the interim financial statements

PANDION ENERGY

NOTE 2 INTANGIBLE ASSETS

(Amounts in USD`000)	Goodwill	Exploration and evaluation assets	Total
Carrying amount at 31 December 2017	124 785	78 513	203 298
Capitalised license costs	-	4 142	4 142
Transfers	-	(25 238)	(25 238)
Carrying amount at 30 September 2018	**124 785**	**57 416**	**182 201**

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

NOTE 3 IMPAIRMENTS

Impairment testing

Impairment tests of individual cash-generating units are performed when impairment triggers are identified, and for goodwill impairment is tested annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

No impairment indicators have been identified at the end of third quarter 2018.

Notes to the financial statements

PANDION ENERGY

NOTE 4 EQUITY AND SHAREHOLDERS

(Amounts in USD`000)	
Shareholders' equity at 31 December 2017	**69 911**
Share issue	40 982
Share issue - unregistered	-
Net income	(3 208)
Shareholders' equity at 30 September 2018	**107 685**

Share capital of NOK 911 921 294 comprised 911 921 294 shares at a nominal value of NOK 1,00. The share issue amounting to USD 40 982 225 was registered in the Register of Business Enterprises on 4 April 2018.

A Subscription and Investment Agreement between Pandion Energy AS 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.

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 but not an obligation to provide additional funds in an amount up to 110 USD million, resulting in an aggregate funding up to USD 300 million

Notes to the financial statements

PANDION ENERGY

NOTE 5 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	-
Decrease in estimates	-
Amounts charged against asset retirement obligations	(24 556)
Effects of change in the discount rate	-
Reduction due to divestments	-
Accretion expenses	5 025
Reclassification and transfer	-
Currency translation	-
Asset retirement obligations at 30 September 2018	**162 668**
Non-current portion at 30 September 2018	144 548
Current portion at 30 September 2018	18 120

Notes to the financial statements

NOTE 6 INTEREST BEARING DEBT

Revolving Exploration Loan Facility

	Facility currency	Utilised amount, USD`000	Undrawn facility	Interest	Maturity	Carrying amount, USD`000
At 30 September 2018	NOK	13 322	35 428	NIBOR + 1.25 %	Dec 2018	13 126

The total credit limit for the Company at 30 September 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 new facility is up to and including 31 December 2018 with an option to extend the revolving period with one year up to 31 December 2019

Notes to the financial statements

PANDION ENERGY

NOTE 6 INTEREST BEARING DEBT (cont)

RBL Facility Agreement

	Facility currency	Utilised amount, USD`000	Undrawn facility	Interest	Maturity	Carrying amount, USD`000
At 30 September 2018	USD	65 100	84 900	LIBOR + 3.5%	April 2025	62 464

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 interst 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.

Notes to the financial statements

PANDION ENERGY

NOTE 6 INTEREST BEARING DEBT (cont)

Unsecured Bond

	Facility currency	Utilised amount, USD`000	Undrawn facility	Interest	Maturity	Carrying amount, USD`000
At 30 September 2018	NOK	50 967	-	10.61%	April 2023	49 966

The bond is an unsecured bond denominated in NOK and runs from April 2018 to April 2023. 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.

Maturity profile based on contractual undiscounted cash flows

(Amounts in USD`000)	**2018**
Less than 12 months	10 365
1 to 5 years	2 957
Over 5 years	116 067
Total	**129 390**

Notes to the financial statements

PANDION ENERGY

NOTE 7 FINANCIAL ITEMS

(Amounts in USD`000)	Q3 2018	2018 YTD
Net foreign exchange gains (losses)	(1 847)	46
Interest income	30	86
Amortised loan costs	(202)	(394)
Accretion expense asset retirement obligations	(1 611)	(5 025)
Interest expenses	(3 509)	(7 709)
Other financial items	(52)	17
Net financial items	**(7 191)**	**(12 979)**

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