



PANDION ENERGY

PANDION ENERGY

Interim Financial Statements
(unaudited)

Fourth Quarter 2018





Disclaimer

The information given in this presentation is meant to be correct, reliable and adequate, and is compiled by Pandion Energy AS's competent team. You may use the information for your own purpose. However, if the information is found to be incomplete, inaccurate or even wrong. Pandion Energy AS is not responsible and does not cover any costs or loss occurred related to the given information.

The information contained in this Presentation may include results of analyses from a quantitative model that may represent potential future events that may or may not be realized, and is not a complete analysis of every material fact relating to the Company or its business. This Presentation may contain projections and forward looking statements. The words "believe", "expect", "could", "may", "anticipate", "intend" and "plan" and similar expressions identify forward-looking statements. All statements other than statements of historical facts included in the Presentation, including, without limitation, those regarding the Financial information, the Company's financial position, potential business strategy, potential plans and potential objectives, are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the Company's actual results, performance, achievements and value to be materially different from any future results, performance, achievements or values expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Company's present and future business strategies and the environment in which the Company will operate in the future. No warranty or representation is given by the Company or any of the Managers as to the reasonableness of these assumptions. Further, certain forward-looking statements are based upon assumptions of future events that may not prove to be accurate. The contents of this Presentation are not to be construed as financial, legal, business, investment, tax or other professional advice. Each recipient should consult with its own financial, legal, business, investment and tax adviser as to financial, legal, business, investment and tax advice.

This Presentation is governed by Norwegian law. Any dispute arising in respect of this Presentation is subject to the exclusive jurisdiction of Norwegian courts with Oslo District Court as exclusive legal venue.

Interim Financial Statements 4Q 2018

Contents



Page 04 INTRODUCTION

General information
Change in functional currency
Accounting principles

Page 06 SUMMARY OF THE QUARTER

Summary
Operational review
Hedging

Page 08 INTERIM FINANCIAL STATEMENTS (UNAUDITED)

Statements of income
Balance sheet statements
Statements of cash flow

Page 13 NOTES TO THE INTERIM FINANCIAL STATEMENTS

Introduction



General information

These interim financial 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.

Fourth Quarter 2018 Summary



Summary

Total income was USD 23.7 million, and reported operating profit USD 14.7 million. EBITDAX amounted to USD 22.6 million. Net profit was USD 3.8 million.

The total income was driven by revenues related to the Valhall and Hod fields, mainly from oil sales (308 kboe in Q4 compared to 352 kboe in Q3). Average realised oil price was USD 68.5 per bbl in Q4 compared to USD 75.5 per bbl in Q3.

The operating expenses amounted to USD 9.3 million.

Investments in fixed assets amounted to USD 24.2 million, driven by investments in the Valhall field, mainly Flank North, Flank West and IP drilling program.

The company's interest-bearing debt was USD 130.3 million at the end of the fourth quarter.

Operational Review

Production from the Valhall and Hod fields was 4.4 thousand barrels of oil equivalents per day («mboepd») net to Pandion during fourth quarter. This represents a ten percent increase from the previous quarter, driven by ramp-up of production from new wells and high production efficiency.

Drilling from the IP platform continued with the G22 well coming onstream during the quarter. The G11 well was subsequently drilled and completed with the new Fishbones technology in one section of the well. Test production is planned to commence in February 2019. This new technology has the potential to significantly reduce the time to production for new wells, if successful.

The P&A campaign at Valhall was completed in early October, significantly ahead of the original plan. The Maersk Invincible rig was moved to the Valhall Flank North where it successfully drilled a new water injection well and a producing well. The rig has now been redeployed to Valhall Flank South to drill two infill wells.

The Valhall Flank West development project is progressing as planned. Engineering of the topside and jacket has been completed. Construction activities remain on track and subsea engineering and planning for the upcoming offshore campaign summer 2019 are ahead of schedule.

The production efficiency for the Valhall area was 91 percent in the quarter.

Fourth Quarter 2018 Summary



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 fourth quarter Pandion had put in place a hedging programme through 2019 and Q1 2020.

>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 decrease in the long term oil prices during Q4 the Company had a unrealised gain from hedging presented as other gains/(losses).

Statements of income

31 December 2018



Statements of income

(Amounts in USD`000)	Note	Q4 2018	2018
Revenues		23 675	100 588
Other gains/(losses)	8	7 181	2 425
Total revenues and income		30 856	103 013
Operating expenses		(9 320)	(39 276)
General and administrative expense		1 101	-
Depreciation, amortisation and net impairment losses	1	(2 933)	(11 551)
Exploration expenses		(4 981)	(8 854)
Total expenses		(16 133)	(59 681)
Profit from operating activities		14 723	43 332
Net financial items	7	(4 671)	(17 650)
Profit before income tax		10 052	25 682
Income tax		(6 248)	(24 137)
Net profit		3 804	1 545

Statements of income

31 December 2018



Statements of comprehensive income

(Amounts in USD`000)	Note	Q4 2018	2018
Net income		3 804	1 545
Currency translation adjustments		-	-
<i>Items that may be subsequently reclassified to the Statement of income</i>			
Other comprehensive income		-	-
Cash Flow hedges			
Net gain/losses arising from hedges recognised in OCI		(5 240)	(9 131)
Net amount reclassified to profit and loss		3 169	5 828
Tax on items recognised over OCI		443	727
Other comprehensive income		(1 628)	(2 577)
Total comprehensive income		2 176	(1 032)

Balance sheet statements

31 December 2018



Assets

(Amounts in USD`000)	Note	2018	2017
Deferred tax assets		-	27 342
Intangible assets	2, 3	183 895	203 298
Property, plant and equipment	1, 3	198 743	129 901
Financial asset at fair value through profit or loss	8	8 075	-
Prepayments and financial receivables		136	144
Total non-current assets		390 848	360 684
Inventories		6 822	5 200
Trade and other receivables		9 050	5 491
Tax receivable from exploration refund		9 094	10 827
Cash and cash equivalents		19 133	8 965
Total current assets		44 098	30 482
Total assets		434 947	391 167

Balance sheet statements

31 December 2018



Equity and liabilities

(Amounts in USD`000)	Note	2018	2017
Share capital	4	113 492	72 509
Other equity	4	(3 631)	(2 599)
Total equity		109 861	69 911
Deferred tax liability		5 202	-
Asset retirement obligations	5	153 994	143 198
Borrowings	6	116 349	-
Hedging derivatives		8 499	-
Total non-current liabilities		284 045	143 198
Asset retirement obligations	5	9 567	39 000
Trade, other payables and provisions		25 499	13 313
Borrowings	6	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

Statements of cash flow

31 December 2018



(Amounts in USD '000)	Q4 2018	2018
Income before tax	10 052	25 682
Depreciation, amortisation and net impairment losses	2 942	11 588
Expensed capitalised exploration expenses	1 777	1 777
Accretion of asset removal liability	1 437	6 462
(Increase) decrease in value of financial asset at fair value through profit or loss	(7 181)	(2 425)
(Increase) decrease operational financial asset	-	(5 650)
Asset removal cost	(859)	(25 415)
Net financial expenses	3 234	11 188
Interest and fees paid	(3 112)	(11 647)
(Increase) decrease in working capital	10 082	6 143
Tax payable received (Paid)	10 468	10 468
Net cash flow from operating activities	28 840	28 171
Capital expenditures and investments in furniture, fixtures and office machines	(11)	(19)
Capital expenditures and investments in oil and gas assets	(24 158)	(51 965)
Capital expenditures and investments in exploration and evaluation assets	(5 599)	(10 504)
Net cash flow from investing activities	(29 768)	(62 486)
Increase interest bearing obligations, loans and borrowing	11 519	149 553
Decrease interest bearing obligations, loans and borrowing	(9 980)	(105 070)
Net cash flow from financing activities	1 539	44 483
Net change in cash and cash equivalents	611	10 167
Cash and cash equivalents at the beginning of the period	18 522	8 965
Cash and cash equivalents at the end of the period	19 133	19 133

Notes to the interim financial statements



NOTE 1 PROPERTY, PLANT AND EQUIPMENT

	Oil and gas assets	Tools and equipment	Total
(Amounts in USD'000)			
Carrying amount at 31 December 2017	129 815	86	129 901
Additions	51 965	19	51 983
Acquisition	-	-	-
Asset removal obligation - Change of estimate	316	-	316
Transfers	28 130	-	28 130
Carrying amount at 31 December 2018	210 226	105	210 331
Depreciation	11 551	37	11 588
Accumulated depreciation at 31 December 2018	-	37	11 588
Carrying amount at 31 December 2018	-	68	198 743
Estimated useful lives (years)	UoP	3-10	

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

Notes to the interim financial statements



NOTE 2 INTANGIBLE ASSETS

	Goodwill	Exploration and evaluation assets	Total
(Amounts in USD '000)			
Carrying amount at 31 December 2017	124 785	78 513	203 298
Acquisition		151	151
Capitalised license costs	-	10 353	10 353
Expensed exploration expenditures previously capitalized	-	(1 777)	(1 777)
Transfers	-	(28 130)	(28 130)
Carrying amount at 31 December 2018	124 785	59 110	183 895

The amount of Goodwill entirely 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 fourth quarter 2018.

Notes to the interim financial statements



NOTE 4 EQUITY AND SHAREHOLDERS

(Amounts in USD`000)

Shareholders' equity at 31 December 2017	69 911
Share issue	40 982
Share issue - unregistered	-
Total comprehensive income	(1 032)
Shareholders' equity at 31 December 2018	109 861

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, however 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 interim financial statements



NOTE 5 ASSET RETIREMENT OBLIGATIONS

	Asset retirement obligations
<hr/>	
(Amounts in USD '000)	
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
<hr/>	
New or increased provisions	-
Effects of change in estimates	316
Amounts charged against asset retirement obligations	(25 415)
Reduction due to divestments	-
Accretion expenses	6 462
Reclassification and transfer	-
Currency translation	-
Asset retirement obligations at 31 December 2018	163 561
<hr/>	
Non-current portion at 31 December 2018	153 994
Current portion at 31 December 2018	9 567

Notes to the interim financial statements



NOTE 6 BORROWINGS

Revolving Exploration Loan Facility

	Facility currency	Utilised amount, USD`000	Undrawn facility	Interest	Maturity	Carrying amount, USD`000
At 31 December 2018	NOK	6 236	42 515	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.

Unsecured Bond

	Facility currency	Utilised amount, USD`000	Undrawn facility	Interest	Maturity	Carrying amount, USD`000
At 31 December 2018	NOK	50 967	-	10.61%	April 2023	45 089

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.

Notes to the interim financial statements



NOTE 6 BORROWINGS (cont)

RBL Facility Agreement

	Facility currency	Utilised amount, USD`000	Undrawn facility	Interest	Maturity	Carrying amount, USD`000
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 uncommitted 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.

Notes to the interim financial statements



Non-current Liabilities to related parties

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

	Facility currency	Loan Amount
<u>Kerogen Investment no. 28 Limited</u>	<u>USD</u>	<u>1 000</u>

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

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

Notes to the interim financial statements



NOTE 7 FINANCIAL ITEMS

	Q4 2018	2018 YTD
(Amounts in USD`000)		
Net foreign exchange gains (losses)	(919)	(874)
Interest income	79	165
Amortised loan costs	(55)	(449)
Accretion expense asset retirement obligations	(1 437)	(6 462)
Interest expenses	(1 222)	(8 930)
Other financial items	(1 117)	(1 100)
Net financial items	(4 671)	(17 650)

Notes to the interim financial statements



NOTE 8 FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

	Financial assets
(Amounts in USD`000)	
Non-current portion at 31 December 2017	-
Current portion at 31 December 2017	-
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 the end of the fourth quarter Pandion had put in place a hedging programme through 2019 and Q1 2020.

The entire existing hedging program is based on put options. Following the decrease in the long term oil prices during Q4 the Company had a gain from hedging presented as other gains/(losses).



PANDION ENERGY

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

www.pandionenergy.no

Org. no. 918 175 334

Visiting address:
Lilleakerveien 8
N-0283 Oslo, Norway