– A SHARP EYE FOR NCS OPPORTUNITIES –

ANNUAL REPORT 2019

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

2019

Content

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

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.

Professional

Agile

Commercial

Team player

Pandion Energy was founded in November 2016 to undertake a management buyout of the operational platform and licences of Tullow Oil Norge AS, previously Spring Energy Norway AS. The Company has lent its name from the latin name of an osprey, Pandion haliaetus.

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.

The current portfolio comprises a 10 per cent interest in Valhall & Hod producing fields, as well as interests in nine exploration licences.

Pandion Energy seeks attractive growth opportunities through mergers and acquisitions, farm-ins and participation in licencing rounds and is continuously focusing on development of the opportunities in the Company's existing portfolio.

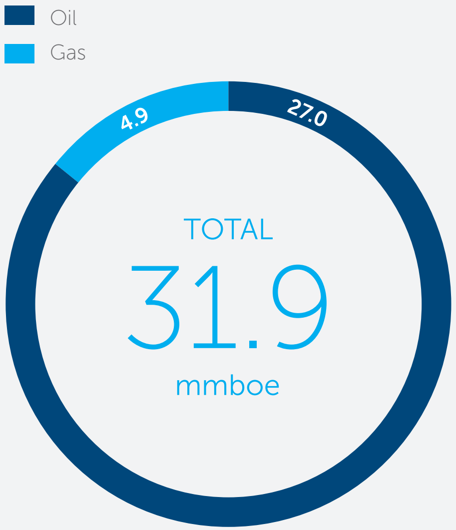
Pandion Energy has a team of highly experienced oil and gas professionals with strong and proven subsurface, financial and commercial competence, as well as extensive project execution experience on the NCS. The Company is headquartered in Oslo, Norway.

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 ambition is to invest up to USD 300 million in Pandion Energy.

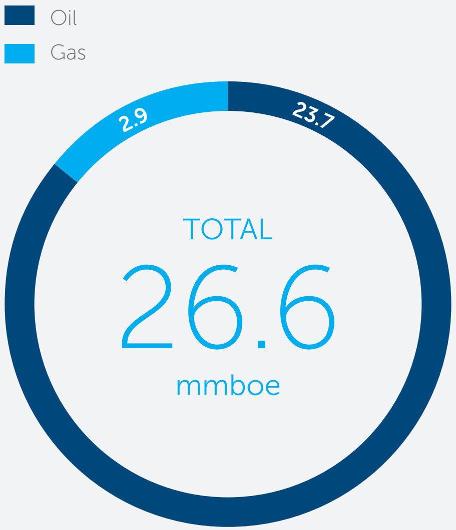
Pandion Energy aims to be recognised as an active and responsible partner

Key figures end 2019

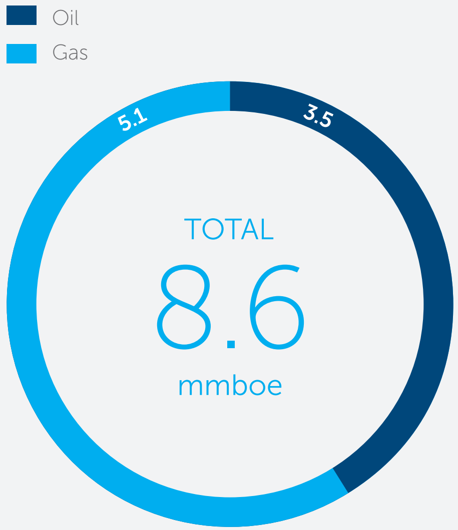
2P RESERVES
VALHALL & HOD



2C RESOURCES
VALHALL & HOD



2P RESERVES
DUVA



KEY FIGURES

	2019	2018
Production in boepd	4 334	3 998
Average realised oil price	66.4	71.4
(Amounts in USD` 000)		
Revenues	103 489	100 588
EBITDAX*	90 494	63 737
Total assets	567 478	434 947
Total equity	135 021	109 861
Total interest bearing debt	207 275	130 303

** For definitions of Alternative Performance Measures, please refer to page 70.*

History and milestones

2017

June

Pandion Energy prequalified as a licencee 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

2018

February

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

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

July

Acquisition of 10% of PL 820 S in the North Sea from Wintershall
Well drilled in 2019/2020

October

NOK 400 million bond loan listed on Nordic ABM

History and milestones

2019

December

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

January

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

Two new licences awarded in the 2018 APA licencing round on the NCS

February

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

Two new licences awarded in the 2018 APA licencing round on the NCS

April

Acquisition of 20% of PL 263 D & E in the Norwegian Sea from Equinor

June

Duva PDO approved
Plan for development and operation (PDO) for the Duva Development approved by the Norwegian Ministry of Petroleum and Energy

July

Acquisition of 20% of PL 891 in the Norwegian Sea from ConocoPhillips
Well planned to be drilled in 2020/2021

November

Divestment of interest in Duva field, 10% to Sval Energi and 10% to PGNiG Upstream Norway
Transactions completed end December 2019 and early February 2020, respectively

December

First oil at Valhall Flank West in the North Sea

2020

January

Two new licences awarded in the 2019 APA licencing round on the NCS

February

Positive drill decision of the Ofelia prospect in PL 929
Well planned to be drilled in 2022

March

Pandion Energy's first oil and gas discovery on NCS in production licence 820 S

Letter from our CEO

2019 was another eventful year with solid operational performance for Pandion Energy. We continue to build on our strengths as an agile and professional team player on the Norwegian Continental Shelf, by a dedicated team with strong commercial and operational capabilities.

However, during the first three months of 2020, the world has changed dramatically. The coronavirus is spreading around the world, representing a significant threat to people's health and causing severe consequences for the global economy, including a material drop in the oil price. The safety and well-being of our employees is our first priority, and we are monitoring the situation carefully and initiating actions to protect our people, the society and our operations. It is further essential that Pandion maintains liquidity and stays financially secure.

Pandion Energy's 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, focusing on assets with access to existing infrastructure.

In Pandion Energy, we are committed to be an active and responsible partner. The world is facing a tremendous challenge in reducing Co2 emissions, while at the same time a growing population globally needs increasing supplies of energy. This place a huge responsibility to the oil and gas industry to increase the efficiency of its production, minimising the emissions from its operations.

Currently, the Valhall area operated by Aker BP is Pandion Energy's only producing field. The field's carbon dioxide emissions intensity is one of the lowest in the world, with approximately 3.2 kg Co2 per produced barrel, compared to 2018 numbers for the NCS with an average of 8 kg and a global average of 18 kg. Further, we believe that our continuous focus on technology development, is critical to secure more efficient operations.

Divestment of Duva field

Through our divestment of the Duva field, we are de-risking our portfolio and positioning ourselves for further growth opportunities on the NCS.

In Pandion Energy, we use our core competences where we have a strategic advantage, and our engagement in Duva has really been a success in proving this. Duva was the first discovery in our portfolio, and we have been fortunate to participate in a significant value creation in the field, all the way from discovery to development, including a 50 per cent increase in recoverable resources. In November we announced that we were divesting our share of the field. We are very pleased to be able to crystallise some of the value created in our portfolio to date, strengthening our capacity to act on future opportunities.

Development of Valhall & Hod

During the year, the Valhall Flank West development project successfully developed, with first oil achieved towards the end of the year.

The development of the Valhall & Hod fields has progressed positively during the year. The production from Valhall increased during the year, although somewhat lower than planned, due to delays in the stimulation program, related to testing of the new "Single-Trip-Multi-Frac" technology, and consequently start of production from new wells. The new technology was successfully applied on one of the wells brought on stream in the fourth quarter, representing a world-first for a new method of well stimulation offshore, with significant time and cost savings potential.

In December, the first oil was achieved by the Valhall Flank West development project. This is the first development project we have participated in as a partner in the Valhall area, and we are proud to be part of such a successful project and strong team. Not only did the project team deliver on the ambition of making the safest project ever, the team also delivered ahead of schedule and within budget. With Valhall Flank West on stream, this represents another important step towards achieving the partnership's ambition of another billion barrels from Valhall.

Also, as part of the development of the lower Hod formation, drilling operations have commenced at the field centre, where a total of seven wells are sanctioned. In line with our strategy of maximising recovery and value from the Valhall area, a concept selection has been made for the Hod field development project, representing a re-development of this field. The selected concept and execution model build on the success of Valhal Flank West, with the same people and alliances.

Continuous portfolio expansion

During the year, we continued to expand our portfolio, demonstrating the importance of exploration and appraisal activities in our growth strategy. We identified and secured two exciting prospects, through our acquisitions of a 20 per cent interest in two licences, the Appolonia prospect from Equinor and in the Slagugle prospect from ConocoPhillips. Both prospects are located in the prolific Haltenbanken area of the Norwegian Sea, close to existing fields and discoveries.

In addition, we are very pleased to be awarded another two licences in the 2019 Norwegian APA licensing round on the NCS. The annual APA rounds are an important source to attractive growth opportunities in line with our exploration strategy.

In March 2020, we could proudly announce our first oil and gas discovery on the NCS in production licence 820 S, demonstrating the potential of our exploration strategy.

Digitalisation and technology development
In Pandion Energy, we continuously seek to drive innovation and enhance efficiency in our exploration for oil and gas. In 2019, we kicked off an initiative to digitalise our subsurface capabilities. The work was motivated by Kerogen Capital, our partner and major shareholder, with the objective of developing an advanced digital subsurface platform. By using digital solutions, geological and geophysical data can be analysed more effectively.

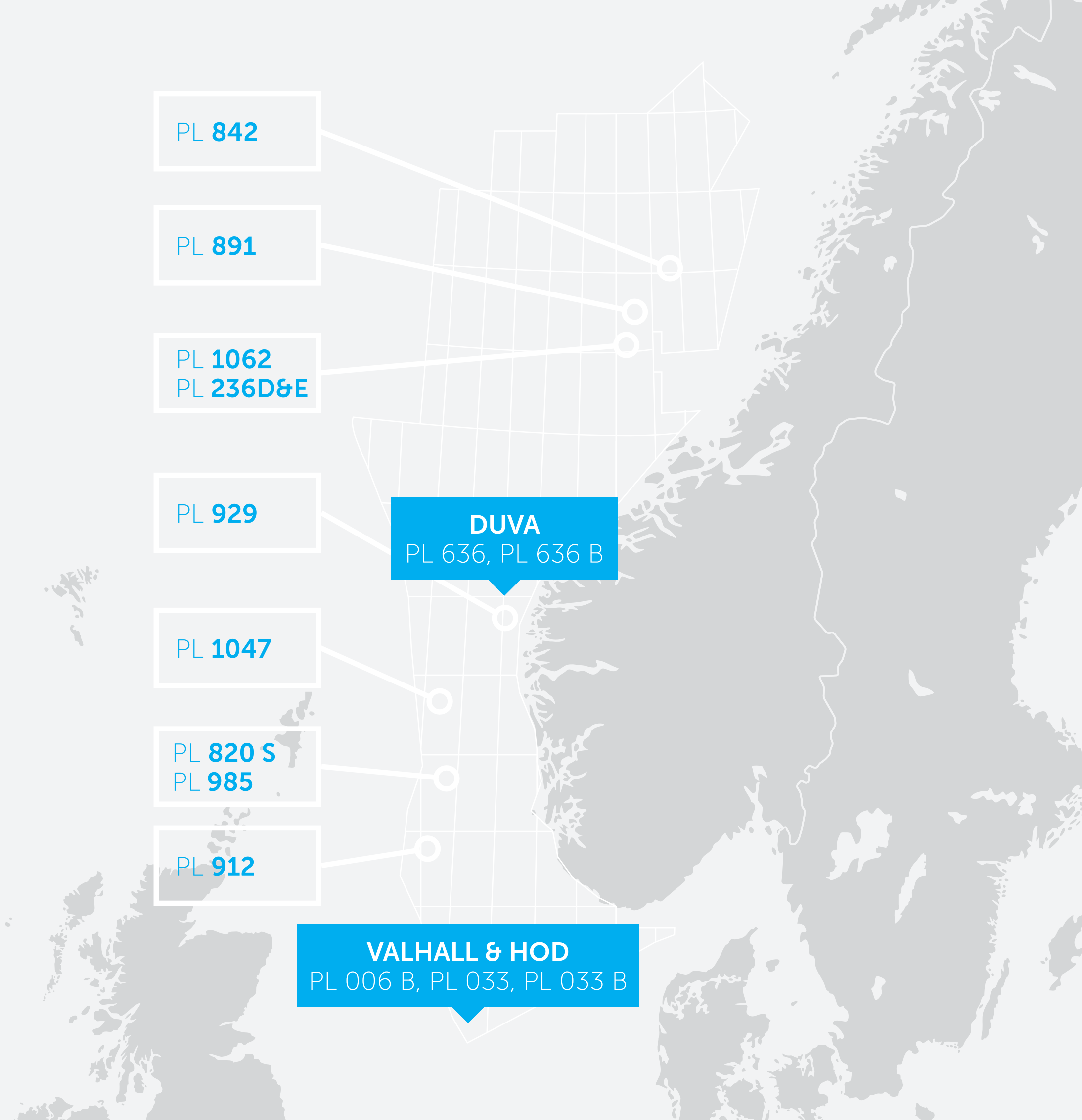
Committed to our strategy
Going forward, we remain committed to our strategy of being an active and responsible partner and a full-cycle oil and gas company with long-term ambitions. Our strongest priority is to further develop the Valhall & Hod fields, and at the same time continue to grow and develop our exploration portfolio.

Our team of highly experienced professionals with deep knowledge about the NCS and related clusters and a solid track record from the industry, combined with strong commercial, technical and implementation capabilities remains our greatest asset.

Be safe and stay healthy,

Jan Christian Ellefsen
CEO of Pandion Energy

Asset overview



DUVA*

Location	North Sea
Block(s)	36/7
Pandion Energy Interest	10%
Operator	Neptune Energy Norge AS (30%)
Other partners	Idemitsu Petroleum Norge AS (30%) PGNiG Upstream Norway AS (20%) Sval Energi AS (10%)
Awarded	03.02.2012
Area	281 km²

*Divested 03.02.2020

PL 636 B*

Location	North Sea
Block(s)	36/7
Pandion Energy Interest	10%
Operator	Neptune Energy Norge AS (30%)
Other partners	Idemitsu Petroleum Norge AS (30%) PGNiG Upstream Norway AS (20%) Sval Energi AS (10%)
Awarded	01.03.2019
Area	46 km²

*Divested 03.02.2020

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 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 (40%) Wintershall Dea Norge AS (10%)
Awarded	06.02.2015
Area	665 km²

Exploration licences

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

* Licence decision of relinquishment in 2020

PL 929

Location	North Sea
Block(s)	35/6, 36/4
Pandion Energy interest	20%
Operator	Neptune Energy Norge AS (40%)
Other partners	Wintershall Dea Norge AS (20%) DNO Norge AS med (10%) Lundin Norway AS (10%)
Awarded	02.03.2018
Area	285.7 km²

PL 263 D & E

Location	Norwegian Sea
Block(s)	6407/1, 6507/10
Pandion Energy Interest	20%
Operator	Equinor Energy AS (80%)
Other partners	-
Awarded	02.03.2018 (D), 01.11.2019 (E)
Area	46 km²

PL 1047*

Location	North Sea
Block(s)	30/4, 30/5, 30/7, 30/8
Pandion Energy interest	20%
Operator	Aker BP ASA (40%)
Other partners	ConocoPhillips Skandinavia AS (20%) Concedo ASA (20%)
Awarded	01.03.2019
Area	202.4 km²

* Awarded in 2020

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

* Relinquished 02.03.2020

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

PL 891

Location	Norwegian Sea
Block(s)	6507/5, 6507/6, 6507/8
Pandion Energy interest	20%
Operator	ConocoPhillips Skandinavia AS (80%)
Other partners	-
Awarded	10.02.2017
Area	220.7 km²

PL 1062*

Location	Norwegian Sea
Block(s)	6507/11
Pandion Energy interest	30%
Operator	Neptune Energy Norge AS (40%)
Other partners	Lime Petroleum AS (30%)
Awarded	01.03.2019
Area	140.9 km²

* Awarded in 2020

Valhall & Hod fields

The gigantic Valhall area is one of the largest oil producing fields in the Norwegian North Sea. Since the production commenced in 1982, the fields have produced more than one billion barrels of oil equivalents, more than three times the initial expected volume. In December 2019, the Valhall Flank West development project achieved first oil, marking a major milestone for Pandion Energy and bringing the partners of the Valhall & Hod fields one step closer to achieving the ambition of producing another billion barrels from the fields over the next 40 years.

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 quarter, 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 and one additional unmanned and remotely operated flank platform has in 2019 been installed at Flank West

The Hod field is located 13 km south of Valhall and is remotely operated from the Valhall field centre. Hod is developed with an unmanned wellhead platform and was the first unmanned platform in the Norwegian sector of the North Sea when production started in August 1990. All wells on Hod are currently shut-in and the Hod reservoir is now produced from wells drilled from the Valhall South Flank platform. However, in line with the strategy of maximising recovery and value from the Valhall area, a concept selection has been made for the Hod field development project, representing a re-development of the Hod field.

As part of environmental measures to reduce emissions (CO2 and NOX) and environmental risk, the Valhall field has had electrical power from shore since 2012. Continuous flaring has also ceased on the field. In addition, the platform at the Valhall Flank West project has been delivered with the world's first electric lifeboat. The lifeboat is monitored from the Valhall field centre, and both the crane and seawater pump are electric and receive power from the field centre, contributing to reduced maintenance.

Gross production from Valhall and Hod averaged 43,400 boepd in 2019, up from an average of 40,000 boepd in 2018, driven by ramp-up of production from new wells. The average production efficiency was 82 per cent in 2019, compared with 87 per cent in 2018. The decrease was due to planned one-month maintenance shutdown in June 2019.

New wells on stream

The production from Valhall increased during the year, although somewhat lower than forecasted, mainly due to delays in the stimulation program in relation to implementation of new stimulation technology.

The Valhall IP drilling campaign continued drilling of G-10 and G-11. Valuable core samples and data were gathered on the shallower Miocene accumulation during the drilling of this well. The Miocene accumulation may represent a significant development potential.

Maersk Invincible drilled two infill targets on Flank South, where the first target did not find economic volumes. A second back-up target was sanctioned, planned and successfully executed in only two months to safeguard production and reserves from South Flank. The rig was then moved to Flank West (FW) to commence drilling and four FW wells was completed in 2019.

Valhall Flank West

On 16 December 2019, the Valhall Flank West development project achieved first oil on schedule and within budget. The Plan for Development and Operation was submitted in December 2017. The first steel was cut at Kvaerner's yard in Verdal in April 2018. Just over one year later, both the jacket and the topsides were installed on the field with no additional carry-over work.

A significant scope of modification work has been carried out on the Valhall field centre. The Maersk Invincible rig came to the field in July, and the first two wells were drilled and completed in record time. The "single- trip- multi- frac" technology has been implemented with significant saving in time for well stimulation.

Valhall Flank West is a well head platform that will normally be unmanned and tied back to the Valhall field centre for processing and export. The installation receives power from shore via the Valhall field centre, in line with the partnership's strategy of minimising the environmental footprint.

Recoverable reserves for Valhall Flank West were estimated to be around 60 million barrels of oil equivalent based on the drilling of six production wells. Since then, three additional infill wells have been sanctioned bringing the recoverable reserves to around 80 million barrels of oil equivalent, with further drilling targets being evaluated.

The total investments for the partnership are estimated to be NOK 7.7 billion in the Valhall Flank West development project including the new wells, which has an estimated break-even price of USD 28.5 per barrel. Around 1,500 people have been involved in the project. The plan is to drill nine wells, but the option of drilling further wells is being considered.

Hod field development
In the fourth quarter of 2019, a concept selection was made for the Hod field development project which represents a re-development of the field. Building on the success of Valhall Flank West project, the selected concept and execution model for the Hod field development project is planned based on a copy of the Valhall Flank West and calls for a 12-slot normally unmanned wellhead installation to be tied back to the Valhall central complex.

Lower Hod formation
At the field centre drilling operations commenced as part of the development of the lower Hod formation where a total of seven wells are planned.

Decommissioning
The original accommodation platform at Valhall (QP) was safely removed in June by Pioneering Spirit. This was the first of the original structures at Valhall to be removed as part of the modernisation of the Valhall field centre.

In January 2020 the partnership sanctioned a program of decommissioning and removal of the original Valhall and Hod platforms. The decommissioning program will run from 2021 to 2027.

Future ambitions
Pandion Energy shares the operator's ambitions of producing an additional billion barrels of oil equivalent from Valhall over the next 40 years. With Valhall Flank West on stream and with several identified investment opportunities, the partners are closer to reaching that ambition.

VALHALL & HOD

KEY FACTS

Licences
PL 006 B, PL 033, PL 033 B

Pandion working interest
10%

Partner
Aker BP (operator, 90%)

Discovered
Valhall 1975, Hod 1974

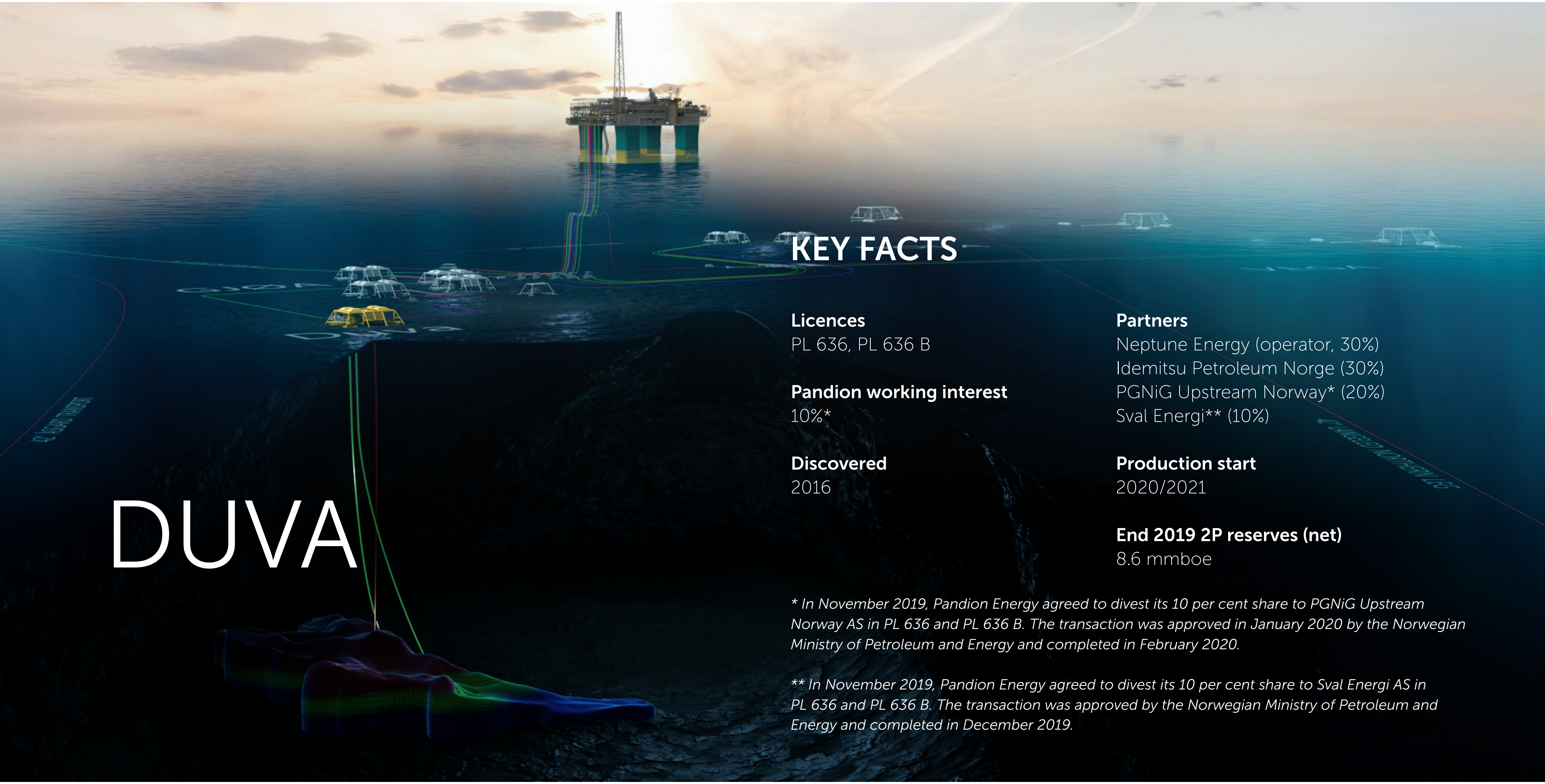
Production start
Valhall 1982, Hod 1990

Production 2019 (net)
4,334 boepd

End 2019 2P reserves (net)
31.9 mmboe

End 2019 2C resources (net)
26.6 mmboe

Duva field



KEY FACTS

Licences
PL 636, PL 636 B

Pandion working interest
10%*

Discovered
2016

Partners
Neptune Energy (operator, 30%)
Idemitsu Petroleum Norge (30%)
PGNiG Upstream Norway* (20%)
Sval Energi** (10%)

Production start
2020/2021

End 2019 2P reserves (net)
8.6 mmboe

** In November 2019, Pandion Energy agreed to divest its 10 per cent share to PGNiG Upstream Norway AS in PL 636 and PL 636 B. The transaction was approved in January 2020 by the Norwegian Ministry of Petroleum and Energy and completed in February 2020.*

*** In November 2019, Pandion Energy agreed to divest its 10 per cent share to Sval Energi AS in PL 636 and PL 636 B. The transaction was approved by the Norwegian Ministry of Petroleum and Energy and completed in December 2019.*

In November 2019, Pandion Energy announced the divestment of the Company's 20 per cent share in the Duva field. The divestment was done through two transactions; one with Sval Energi AS, previously known as Solveig Gas and one with PGNiG Upstream Norway AS, each acquiring a 10 per cent share in PL 636 and PL 636 B. The transactions were closed in December 2019 and February 2020, respectively.

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 licence 636 in August 2016. The discovery was the largest made on the NCS in 2016 and it was the first discovery in Pandion Energy's portfolio, when the asset was part of a Management buyout/ asset acquisition in June 2017. In addition, in January 2019 Pandion Energy was awarded additional acreage to the licence under the 2018 Norwegian APA (Awards in Pre-defined Areas) Licence Round on the NCS. The Plan for Development and Operations (PDO) was approved by the Ministry of Petroleum and Energy in June 2019, less than three years after discovery.

With technical reserves of 88 million barrels of oil equivalents, the Duva field is expected to produce around 30 thousand barrels of oil equivalents per day at its peak. The field will be developed as a subsea tie-back to the nearby Gjøa platform, with first production expected in late 2020/early 2021.

The Duva field has been a success story for Pandion Energy. The Company's engagement in the field represents the core of the Company's strategy; to add value to high quality assets and mature them up the development curve – in this case with more than a 50 per cent increase in recoverable resources since the initial discovery.

The Duva field has been a success story for Pandion Energy. The Company's engagement in the field represents the core of the Company's strategy

Innovation and digitalisation of subsurface capabilities

In 2019, Pandion Energy embarked on an initiative to digitalise its subsurface capabilities. The project was motivated by Kerogen Capital, the Company`s partner and major shareholder, with the objective of developing an advanced digital subsurface platform to improve the Company's subsurface data management and geological and geophysical workflow.

Pandion Energy continuously seek to drive innovation and enhance efficiency in its exploration for oil and gas on the Norwegian Continental Shelf (NCS). Through 2019, the Company's work on building a digital platform for subsurface data progressed. Combining several data sources, including seismic data, well data and other geological data, from different systems, in various formats is challenging.

"We are working to collect and make more data available for the geoscientists, so they can combine datasets in new ways. Since the 1960s, 1,900 exploration wells and a total of 8100 wells have been drilled. Even though most of the data is digital, it is not necessarily readable by new digital solutions. A key focus is therefore to structure, contextualise and make the data machine readable" says Kine Årdal, Digitalisation Manager at Pandion Energy.

A key basis for this work is the Diskos database, in addition to the database Pandion purchased from Tullow when establishing the company during the autumn of 2016. This included a large exploration database with information on the NCS, which is central to the development of the digital platform. Pandion Energy collaborates with different organisations and national, as well as international forums to find and collect data, and translating it into common formats and languages. The Company has mobilised a dedicated team comprising machine learning, data science and geoscience experts.

The objective of the work is to enhance efficiency when analysing large amounts of data, gain more insight and improve the multi-disciplinary work by breaking down the silos.

"We have learned a lot since we started this work and have already seen some positive results. One of our geologists managed to screen reports from 200 wells in two days using the solution," Årdal says. "Normally, she would use one day going through reports from just two wells," she continues.

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.

"Enabling the augmented geoscientist is our ultimate goal. It is not about removing the need for the geoscience expertise but finding the optimal human machine interaction. Using artificial intelligence as a tool to enhance human intelligence and leverage the human expertise," Årdal ends.

*Enabling the augmented geoscientist is our ultimate goal.
It is not about removing the need for the geoscience expertise
but finding the optimal human machine interaction.
Using artificial intelligence as a tool to enhance human
intelligence and leverage the human expertise*

Corporate governance, HSE 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. The Company has a bond loan 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. Nordic ABM is not a regulated market and is not subject to the provisions of the Securities Trading Act. 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 and bondholders. The Company seeks 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 Pandion Energy through the Company's management system. The system incorporates activities at the shareholder and market level, as well as the Board- and 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 everyone working on behalf of Pandion Energy, including 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, equality and anti-harassment, working conditions, including modern slavery and child labor, 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.

HSE management

HSE management is critical in the oil and gas industry where operations can impact the environment, communities and workforce, and considerations related to HSE are therefore of strategic importance to Pandion Energy. The Company integrate technical, economic and HSE considerations into its decision-making and operational processes to achieve long-term sustainability of the business and to reduce risk. Pandion Energy has a non-operator strategy, and the Company therefore place great importance on ensuring that operations it takes part in are safe for the people involved and aim to minimise the impact on the environment.

Pandion Energy constantly strives to manage HSE risk by understanding what can go wrong, minimising the possibility of it occurring and reducing and mitigating potential consequences. Effective management of HSE risk is about embedding HSE practices into the Company's culture and operating procedures.

Sustainability

The Board of Pandion Energy works to make sure that the Company acts as a responsible partner on the Norwegian Continental Shelf ("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. Pandion Energy participates in the discovery, appraisal, development and production of oil and gas resources – and is committed to operate in a safe and responsible manner in all cycles. The fact that the organisation would never compromise on this is an important prerequisite 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 is dedicating significant resources ensuring that sustainable and compliant practices are implemented in all companies it invests in. Kerogen Capital has been a signatory to the United Nations Principles for Responsible Investment ("UNPRI") since 2014 and has since then continuously developed and expanded its approach to Environmental, Social and Governance ("ESG") related matters, both internally and with its portfolio companies.

Pandion Energy 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 player 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, Equinor and Neptune Energy are ambitious in their environmental targets for their operations and determined to operate in a responsible manner. The oil and gas industry has a huge responsibility to increase the efficiency of its production, minimising the emissions from its operations.

Currently, the Valhall area, operated by Aker BP, is Pandion Energy's only producing field. The field's carbon dioxide emissions intensity is one of the lowest in the world, with approximately 3.2 kg Co2 per produced barrel for 2019. Pandion Energy believes that a continuous focus on technology development is critical to secure more efficient 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 licence 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 licencee 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 is committed to an open and transparent communication with all stakeholders

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 workplace. The Company has set up an independent disclosure service for "whistle blowing."

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. The Company has a team of highly experienced professionals to support successful growth.

At the end of 2019, Pandion Energy had 24 employees working from the Company's office in Oslo. In addition, six 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 experience from project execution on the Norwegian Continental Shelf.

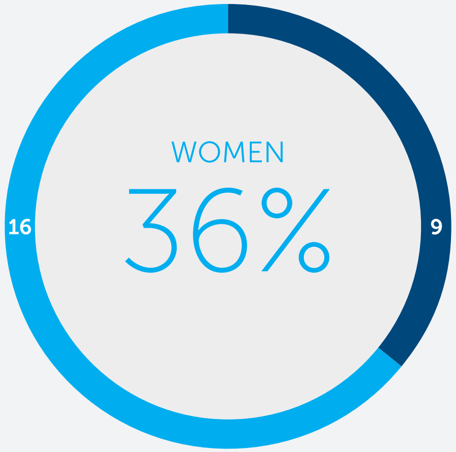
Pandion Energy is led by an experienced management team with an average of more than 20 years of oil and gas industry experience.

Both management and employees are committed to the Company as shareholders through significant investments in the Company.

Key figures as of 31.03.2020

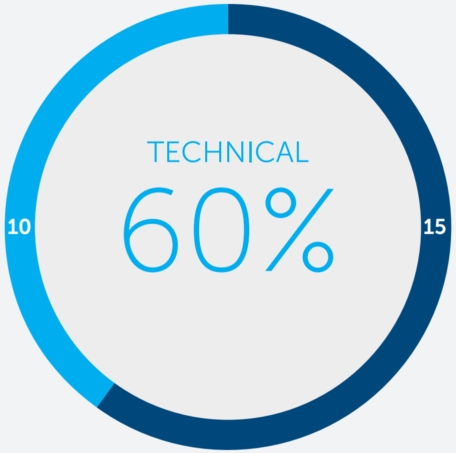
GENDER

- Female
- Male



BUSINESS/TECHNICAL STAFF

- Technical
- Support



EXPERIENCE

- 10-19 years
- 30+ years
- 20-29 years

The management

Jan Christian Ellefsen
CEO
MSc Mechanical Offshore Engineering

Jan Christian Ellefsen leads the Pandion Energy team with over 30 years of managerial, commercial and technical experience in the oil and gas industry. He has a broad range of managerial positions in both oil services and E&P companies, including Managing Director of Tullow Oil Norge AS.

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

Helge 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 market transactions.

Hege Peters
VP Finance & Business Support
MSc Accounting and Auditing

Hege has 25 years of diversified experience with managing of finance functions, 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 more than 20 years of managerial and technical experience in oil and gas industry on the NCS. Her extensive experience cover prospect generation and maturation, licence round applications, planning and drilling of exploration and appraisal wells, and licence portfolio management.

Kjetil Steen
VP Development & Production
MSc Mechanical Engineering

Kjetil has 25 years of experience with developments on the NCS and West Africa, in particular 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 held various HSEQ advisory and managerial positions in various E&P companies since 2007. She has experience from 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 2019

2019 was another year with solid operational and financial development for Pandion Energy. Production from the Valhall & Hod fields increased, new technology was tested and proven, and in December, first oil was achieved at Valhall Flank West. This was the Company's first major development project as a partner on the Valhall & Hod fields.

The Duva project was also successfully progressed through the year. Pandion Energy was a material contributor in securing the approval of the plan for development and operation for the project in June. Towards the end of the year, the Company announced the divestment of its interest in the Duva field. Pandion Energy remains deeply committed to securing new growth opportunities on the Norwegian Continental Shelf.

Going into 2020, the corona pandemic has caused dramatic consequences for the world economy, including a massive drop in the oil price and high uncertainty with regards to the magnitude of the implications going forward. The Board of Pandion Energy is closely monitoring the situation with the objective of making sure necessary measures are taken to protect the people and operations, and that the Company maintains liquidity and stays financially secure.

ABOUT PANDION ENERGY AS

Business and location

Pandion Energy AS (Pandion Energy or the Company) is a Norwegian company founded in November 2016 to undertake a management buyout of the operational platform and six licences 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, Oslo, Norway.

At year-end 2019, 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 10 per cent interest in the Duva field (PL 636, formerly known as the Cara discovery), as well as interests in seven exploration licences. In January 2020, the Company was awarded two licences under the 2019 Norwegian APA (Awards in Predefined Areas) licencing round and in February 2020, the Company completed the sale of its remaining 10 per cent interest in the Duva field with effective date 1 January 2020. Following the awards and divestment of the Duva field, the Company holds a total of twelve licences.

Following the completion of the Duva divestment in February 2020, Pandion Energy's portfolio includes approximately 31.9 million barrels of oil equivalent (mmboe) of net proven and probable (2P) reserves and 26.6 mmboe of net contingent resources (2C). Please see an overview of the assets in a separate section of this annual report or at the Company's homepage: pandionenergy.no.

Business model 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). The Company targets upsides in and around proven assets with access to processing and transportation capacity. Pandion Energy has an ambitious growth strategy, supported by a strong capital structure. The Company will pursue attractive growth opportunities, including further development of the Valhall & Hod producing fields, mergers and acquisitions, farm-ins and participation in future licencing rounds. Pandion Energy's strategy is to be an active and responsible non-operated partner across all assets in the portfolio.

The coronavirus and recent major decline in price of crude oil

During the first quarter of 2020, the coronavirus (Sars-cov-2) has spread at an exponential growth rate in most parts of the world, representing a significant risk for reduced income in many industries, including the oil and gas industry. In addition, the ongoing tensions between Russia and Saudi Arabia, which have led to increased oil production, further negatively impact the price for crude oil. As the magnitude and consequences of the coronavirus is still very uncertain, it is challenging to predict the full extent and duration of the economic and operational impact for Pandion Energy. For the Board of Pandion Energy, it is essential to protect the people and operations of the Company, and to secure that the Company maintains liquidity and stays financially secure.

STRATEGIC ACHIEVEMENTS 2019

Valhall & Hod

In June 2019, the Valhall Flank West topsides were installed on the Valhall field, only 14 months after the first steel was cut at Kværner's yard in Verdal. Both the topsides and the jacket were delivered ahead of schedule, under budget and with no serious injuries. The platform was the first to be delivered under the wellhead platform alliance between Aker BP, Aker Solutions, Kværner and ABB.

In December, the Valhall Flank West development project achieved first oil, on schedule and within budget. This marked a major milestone for Pandion Energy, as Valhall Flank West was the Company's first major development project as a partner on the Valhall & Hod fields.

The Valhall Flank West platform will normally be unmanned and tied back to the Valhall field centre for processing and export. The installation receives power from shore via the Valhall field centre, in line with the partnership's strategy of minimising the environmental footprint.

The ambition for the Valhall & Hod fields is to produce another billion barrels in the next 40 years. With the Valhall Flank West project on stream, the partners are one major step closer to achieving that ambition.

Duva development project

In February, the licence partners of the Duva project (PL 636), formerly known as Cara discovery, submitted the plan for development and operation (PDO) for the project to the Ministry of Petroleum and Energy. The PDO was approved in June, with Pandion Energy as a material contributor, and first production from the project is expected in late 2020/ early 2021 with maximum expected production of around 30,000 bbls of oil equivalents per day (gross).

In November, Pandion Energy announced the divestment of its 20 per cent share in the Duva field through two transactions, one with PGNiG Upstream Norway AS and one with Sval Energi Norway AS (previously Solveig Gas), each acquiring a 10 per cent share in PL 636 and PL 636 B. The sale to Sval Energi AS was completed on 30 December 2019, with effective date 1 January 2019, while the sale to PGNiG Upstream Norway was completed on 3 February 2020, with effective date 1 January 2020.

Duva was the first discovery in Pandion Energy's portfolio, and the Company is pleased with the significant value created by the licence partners by progressing the Duva field from discovery through to development, including a 50 per cent increase in recoverable resources since the initial discovery.

New exploration licences

In January, Pandion Energy was awarded two new prospective exploration licences under the 2018 Norwegian APA (Awards in Predefined Areas) licencing round on the NCS. Pandion Energy was offered a 20 per cent participating interest in PL 985, which is located in the Central North Sea and a 20 per cent participating interest in PL 636 B, which is additional acreage to PL 636, the Duva field. The licence is located on the Måløy slope, east of the Gjøa field in a strategic core area for Pandion Energy. This licence was later divested, as mentioned above.

In April, Pandion Energy entered into an agreement with Equinor Energy AS to acquire a 20 per cent interest in PL 263 D and PL 263 E, containing the Appolonia prospect. The licences are located in the prolific Haltenbanken area of the Norwegian Sea in blocks 6407/1 and 6507/10, respectively. Both licences are operated by Equinor. The partnership has decided to drill the Appolonia prospect in late 2020 or early 2021. The acquisition represented Pandion Energy's third exploration farm-in and the second in the Norwegian Sea.

In July, Pandion Energy entered into an agreement with ConocoPhillips Skandinavia AS (ConocoPhillips) to acquire a 20 per cent interest in PL 891, containing the Slagugle prospect. This licence is also located in the prolific Haltenbanken area of the Norwegian Sea in blocks 6507/5, 6 and 8. ConocoPhillips owns 80 per cent of the licence and is the operator. Together ConocoPhillips and Pandion Energy will be preparing to drill the Slagugle prospect in 2020, or alternatively in 2021.

Digitalisation and technology development

In 2019, Pandion Energy embarked on an initiative to digitalise its subsurface capabilities. The project was motivated by Kerogen Capital, the Company`s partner and major shareholder, with the objective of developing an advanced digital subsurface platform to improve the Company's subsurface data management and geological and geophysical workflow.

Pandion Energy and its partners also successfully tested and applied new technology during the year. One example is the "Single-Trip-Multi-Frac" technology used at Valhall Flank West, the first time for such well stimulation method applied offshore, enabling better and faster well stimulation with significant time and cost savings potential.

FINANCIAL REVIEW

The going concern assumption

Pursuant to the § 3-3a of the Norwegian Accounting Act, the Board of Directors (the Board) have performed a robust assessment of the Company's cash flows and its financial and liquidity position, including under a number of downside scenarios and confirms that the conditions for continued operations as a going concern are present and that the annual accounts have been prepared on the going concern basis. The Board 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 2019.

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.

Income statement

In 2019, Pandion Energy recorded total revenues of USD 125.1 million (up from USD 103.0 million in 2018), which includes revenues related to Pandion Energy's 10 per cent interest in the Valhall & Hod producing fields as well as gains from the sale of assets, which comprise the completion of the 10 per cent working interest of the Duva field to Sval Energi AS. For further information about the transaction, see note 6 to the financial statements.

Average production net to Pandion Energy was 4,334 barrels of oil equivalent per day (boepd), compared to an average of 3,998 boepd per day in 2018, driven by new infill wells and Valhall Flank West coming onstream during the year. The average realised oil price was USD 66.4 per barrel in 2019, down from USD 71.4 per barrel in 2018, consistent with the Brent benchmark price movements.

Operating expenses amounted to USD 34.6 million for 2019, compared to USD 39.3 million for 2018.

Exploration expenses were USD 24.1 million for the year of 2019, up from USD 8.9 million for 2018. Exploration expenses include expenses for acquisition, processing and analysis of seismic data, previously capitalised exploration costs, as well as allocation of own expensed costs including general and administrative expenses related to New Venture activities. The higher exploration expenses for 2019 are mainly attributable to USD 14.8 million in expensed exploration expenditures that were previously capitalised. These mainly relate to dry targets in the combined appraisal and exploration well at the Hod field, a dry well in PL 842 (Godalen), as well as relinquishment decision in relation to PL 776, PL 842 and PL 912.

In 2019, the Company had an operating profit of USD 44.5 million and an EBITDAX* of USD 90.5 million, up from USD 43.3 million and USD 63.7 million in 2018, respectively.

The Company recorded net financial expenses of USD 18.8 million for 2019, compared to USD 17.7 million for 2018. The financial expenses include interest expenses of USD 11.9 million, which is related to the Company's unsecured bond, the RBL facility and exploration finance facility (EFF), as well as accretion expenses of USD 6.0 million related to asset retirement obligations. Please refer to the notes to the financial statements for more details on the Company's debt structure.

Profit before income tax for 2019 was USD 25.7 million, in line with the USD 25.7 million recorded for 2018. Income tax amounted to USD 0.3 million for the year, compared to income tax expense of USD 24.1 million for 2018, resulting in a net profit of USD 26.0 million for 2019, up from USD 1.5 million for 2018.

Cash flow statement
Pandion Energy had a net cash flow from operating activities of USD 68.7 million for 2019, compared to USD 53.6 million for 2018. The positive cash flow is primarily driven by higher revenues and lower operating expenses, combined with lower payments related to oil price hedging. The difference between cash flow and profit provided by operating activities is mainly explained by effect from depreciation, amortisation and net impairment losses, and expensed capitalised exploration expenses.

For 2019, Pandion Energy had a net cash outflow from investing activities of USD 118.6 million, compared to an outflow of USD 87.9 million for 2018. The investment activities in 2019 related to further development of the Valhall area, mainly the Valhall Flank West project and infill drilling, and the Duva development project, partly offset by a positive contribution from the divestment of Duva.

Net cash flow from financing activities during 2019 was USD 77.3 million. This figure comprises of (i) the reserve-based lending (RBL) facility net drawdown of USD 60 million, and (ii) exploration finance facility (EFF) net drawdown of USD 17.3 million.

Cash and cash equivalents increased by USD 27.4 million during 2019 to USD 46.6 million, mainly related to the divestment of 10 per cent share in the Duva field to Sval Energi AS, completed on 30 December 2019.

Financial position
As of 31 December 2019, the Company had total assets of USD 567.5 million, of which property, plant and equipment amounted to USD 285.6 million, a net increase of USD 86.9 million since the end of 2018. The increase is mainly related to the Valhall Flank West project and infill drilling. Intangible assets, including goodwill, amounted to USD 177.4 million at year-end. As at 2019 year end, the carrying value of USD 17.6 million related to the remaining 10 per cent interest in the Duva development was reclassified as the value of assets held for sale. In comparison, total assets at the end of 2018 amounted to USD 434.9 million.

Total equity was USD 135.0 million at the end of 2019, representing an equity share of 23.8 per cent. Total equity at the end of 2018 was USD 109.9 million. The share capital of USD 113.5 was unchanged since the end of 2018.

Pandion Energy had total interest-bearing debt at the end of 2019 amounting to USD 207.3 million, up from USD 130.3 million at the end of 2018.

Events after the period
During the first quarter 2020, the spread of the coronavirus (Sars-cov-2) has caused global disruption with negative consequences both for human health and the global economy. The situation has created significant

* *For definitions of Alternative Performance Measures (APM), please refer to page 70.*

uncertainty in the oil market which, combined with signals from several oil producing countries, has resulted in a major drop in the oil price. The long-term impact from these events is difficult to predict.

In January 2020, Pandion Energy was awarded two licences under the 2019 Norwegian APA licencing round on the NCS. The Company was offered a 20 per cent participating interest in PL 1047 and a 30 per cent participating interest in PL 1062. PL 1047 in blocks 30/4, 5, 7 & 8 is located in the central part of the Viking Graben in the North Sea, between the Martin Linge- and Oseberg fields. PL 1062 in block 6507/11 is located at the Halten Terrace in the Norwegian Sea, southeast of the Heidrun field with the Midgard field to the south, and the Natalia discovery to the west.

In February 2020, Pandion Energy announced the completion of its sale of the Duva interest to PGNiG Upstream Norway AS with effective date 1 January 2020. The transaction was announced in November 2019 and included a 10 per cent non-operated interest in PL 636, comprising the Duva oil and gas field, and PL 636 B.

On 17 March 2020, Pandion Energy and its partners, represented by the operator MOL Norge, Lundin Norway and Winterhall DEA Norge, announced oil and gas discoveries in PL 820 S, close to the Balder & Ringhorne fields in the North Sea, following the completion of the drilling of exploration well 25/8-19 S and sidetrack 25/8-19 A. The well was drilled 8 kilometres northwest of the Ringhorne field in the central part of the North Sea, about 200 kilometres west of Stavanger. Preliminary evaluation of the discovery in the Skagerrak Formation shows a recoverable resource potential of between 12 and 71 mmboe (2-11 mill. Sm3). The operator and its partners will now evaluate the well results to determine commerciality of the discovery and the need for additional appraisal activity, as well as impact on remaining prospectivity within the licence. This is the first exploration well in PL 820 S and the first discovery made by Pandion Energy.

RISKS AND RISK MANAGEMENT

Pandion Energy is subject to various controllable and uncontrollable risks, associated with the nature of the oil and gas business operations. Companies operating in the oil and gas industry, including Pandion Energy, are exposed to a variety of operational, financial and external risks that may not be entirely possible to eliminate even with robust risk management routines and experiences.

The Board of Pandion Energy works together with the Company to develop a risk management strategy and processes to enable the management to prevent and effectively handle, potential events. 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 in line with industry standards, and that adequate systems and procedures are in place to address these risks. Pandion Energy's approach to risk management includes assessing and managing risk with focus on achieving the highest risk adjusted returns for the shareholders.

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 and responsible 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 completely 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 could adversely affect 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 minimise 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 directly or indirectly as they may influence banks' and investors' appetite to lend to, or invest in, the Company. The Company considers its credit risk to be low, as its licence partners are creditworthy oil companies and cash and cash equivalents are receivables from banks.

Pandion Energy is highly focused on active risk management through hedging, liquidity focus and insurance. The Company has insured its pro-rata liability on the NCS in line with the best industry practices and has offshore insurance programmes covering the following risks (non-exhaustive):

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

Commodity price risk
Pandion Energy operates in the crude oil and natural gas market. Fluctuations in hydrocarbon prices can therefore have an effect on the Company's revenue. Commodity price risks represent the Company's most important market risk going forward. To manage this risk, Pandion Energy secures cash flows from sale of crude oil through commodity price hedging. However, a downturn in oil prices could still 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.

In order to reduce the risk related to oil price fluctuations, the Company has established an oil price hedging programme. At the end of 2019, Pandion Energy had put in place a hedging programme until 30 September 2020. Most of the existing hedging program is based on put options, however part of the hedging is collar structures.
At the end of 2019, the expected post-tax volumes for the first three quarters of 2020 were hedged at an average strike of USD 55.4/bbl (USD 53.2/bbl net of costs).

Currency risk
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. Although the Company will preferably raise funding in USD, the senior unsecured bond raised in 2018 was, due to market considerations, raised in NOK. In order to mitigate the currency risk arising from the debt issuance, the Company has entered into cross-currency interest rate swaps. 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. Borrowings issued with floating interest rate conditions expose the Company to interest rate risk. The Company has entered into interest rate swaps to mitigate the risk arising from variable interest payable on the unsecured bond.

Liquidity 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.

Liquidity risk is the risk that the Company will not be able to meet the obligations of financial liabilities when they become due. Pandion Energy carries out short-term (12 months) and long-term forecasts to plan the Company`s liquidity. These forecasts are updated regularly, for various scenarios and form part of the decision basis for the Company`s management and the Board.

External risks
The business landscape in which the Company operates can change rapidly. The risks of fluctuations in 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. The Company aims to develop a portfolio of assets that remains resilient as the government's response to climate change evolves.

CORPORATE GOVERNANCE AND SUSTAINABILITY

Pandion Energy is committed to healthy corporate governance practices creating 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 is required by 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 in consultation with market participants. The Company encourages transparency and aims for 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.

RESEARCH AND DEVELOPMENT

Pandion Energy continuously seeks to drive innovation and enhance efficiency in exploration for oil and gas on the NCS. Pandion Energy has recently embarked on the process of digitalisation of its subsurface capabilities through applying new digital solutions to geological and geophysical data. Digital solutions such as machine learning and data science will provide increased understanding of the subsurface data and make analysis of geological and geophysical data more efficient.

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, 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 an HSE Policy for all the Company's employees and contractors. The objective of the HSE policy is to secure that all activities are carried out in 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 HSE risk by understanding what can go wrong, minimising the possibility of it occurring and reducing the potential consequences. Effective management of HSE risk is about embedding 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 places 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 driving regular 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 item identified 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, Pandion Energy experienced no injuries or incidents during the reporting period.

PAYMENTS TO GOVERNMENTS

According to the Norwegian Accounting Act section 3-3d pertaining to companies in the extractive industry, the companies are required annually to disclose payments to governments per country and project. Pandion Energy had the following payments to the Norwegian authorities in 2019:

Area fee per licence paid by operators to Norwegian Petroleum Directorate authorities on behalf of the joint ventures (the Company's net share figures):

(Amounts in USD` 000)	
PL 006	98
PL 033	31
PL 636	920
PL 746	3
Total	**1 052**

ORGANISATION

As of 31 December 2019, the Company had 24 employees, up from 22 employees at the end of 2018.

The working environment in Pandion Energy is considered to be good. Absence on sick leave was 2.91 per cent for 2019, compared to 3.66 per cent in 2018. As Pandion Energy has relatively few employees, sick leave among one or two persons could significantly impact the percentage.

Pandion Energy 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 2019, 33 per cent of the employees were female, compared to 32 per cent as of 31 December 2018. Female employees made up 50 per cent of the Management team, while one out of six board members is female.

The Board of Pandion Energy has, in close cooperation with the management team, established a Code of Conduct, that sets out requirements for everyone who works for and on behalf of Pandion Energy. The Code of Conduct applies to the Board, senior management and all employees and consultants. Pandion Energy also expect all business partners and suppliers to act in a manner that is consistent with the principles of the Code of Conduct. The Code of Conduct is available on the Company's homepage: pandionenergy.no.

OUTLOOK

The Board considers Pandion Energy to be very well positioned for further growth. The Company remains committed to its strategy of being an active and responsible partner participating in all phases, from exploration through to development of oil and gas resources on the NCS.

Pandion Energy will continue to invest in proven, high-quality assets with access to existing infrastructure and focus on the further development of the producing Valhall & Hod area.

Oslo, Norway, 31 March 2020
The Board of Directors and CEO of Pandion Energy AS

Alan John Parsley
Chairman of the Board

Jason Aun Minn Cheng
Board Member

Jan Christian Ellesen
CEO/Board Member

Roberta Wong
Board Member

Tushar Kumar
Board Memeber

Helge Larssen Nordtorp
Board Member

RESPONSIBILITY STATEMENT

We confirm, to the best of our knowledge, that the financial statements for the period from 1 January to 31 December 2019 have been prepared in accordance with simplified IFRS pursuant to the Norwegian Accounting Act §3-9 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, 31 March 2020
The Board of Directors and CEO of Pandion Energy AS

Alan John Parsley
Chairman of the Board

Jason Aun Minn Cheng
Board Member

Jan Christian Ellesen
CEO/Board Member

Roberta Wong
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Tushar Kumar
Board Memeber

Helge Larssen Nordtorp
Board Member

FINANCIAL STATEMENTS 2019

Content

Statement of income

Statement of income

(Amounts in USD`000)	Note	2019	2018
Revenues		103 489	100 588
Gains from sale of assets		29 909	-
Other income		(8 327)	2 425
Total revenues and income	6	**125 070**	**103 013**
Operating expenses	7	(34 576)	(39 276)
Depreciation, amortisation and net impairment losses	14	(21 936)	(11 551)
Exploration expenses	7	(24 078)	(8 854)
Total expenses		(80 591)	(59 681)
Profit from operating activities		**44 480**	**43 332**
Net financial items	11	(18 780)	(17 650)
Profit before income tax		**25 700**	**25 682**
Income tax	12	329	(24 137)
Net profit		**26 029**	**1 545**

Statement of comprehensive income

(Amounts in USD`000)	Note	2019	2018
Net income		26 029	1 545
Items that may be subsequently reclassified to the Statement of income			
Cash Flow hedges			
Net gain/losses arising from hedges recognised in OCI	23	(3 018)	(9 131)
Net amount reclassified to profit and loss	23	1 904	5 828
Tax on items recognised over OCI	13,23	245	727
Other comprehensive income		(869)	(2 577)
Total comprehensive income		**25 160**	**(1 032)**

Statement of financial position

Assets

(Amounts in USD`000)	Note	2019	2018
Goodwill	14	124 785	124 784
Intangible assets	14	52 583	59 110
Property, plant and equipment	13	285 593	198 743
Prepayments and financial receivables		135	136
Right-of-use assets	24	1 212	-
Total non-current assets		**464 308**	**382 773**
Inventories		3 864	6 822
Trade and other receivables	18	14 889	9 050
Assets classified as held for sale	15	17 563	-
Financial assets at fair value through profit or loss	21	-	8 075
Tax receivable from exploration refund - short term	12	20 296	9 094
Cash and cash equivalents	9	46 557	19 133
Total current assets		**103 170**	**52 173**
Total assets		**567 478**	**434 947**

Equity and liabilities

(Amounts in USD`000)	Note	2019	2018
Share capital		113 492	113 492
Other equity		21 529	(3 631)
Total equity	19	**135 021**	**109 861**
Deferred tax liability	12	14 455	5 202
Asset retirement obligations	20	156 875	153 994
Borrowings	17	176 027	116 349
Hedging derivatives	23	9 941	8 499
Long term lease debt	24	901	-
Total non-current liabilities		**358 199**	**284 045**
Asset retirement obligations - Short term	20	16 734	9 567
Trade, other payables and provisions	22	33 849	25 499
Borrowings - Short term	17	23 071	5 975
Financial liabilities at fair value through profit or loss	21	252	-
Short term lease debt	24	352	-
Total current liabilities		**74 258**	**41 041**
Total liabilities		**432 457**	**325 086**
Total equity and liabilities		**567 478**	**434 947**

Statement of financial position

Oslo, Norway, 31 March 2020
The Board of Directors and CEO of Pandion Energy AS

Alan John Parsley
Chairman of the Board

Jason Aun Minn Cheng
Board Member

Jan Christian Ellesen
CEO/Board Member

Roberta Wong
Board Member

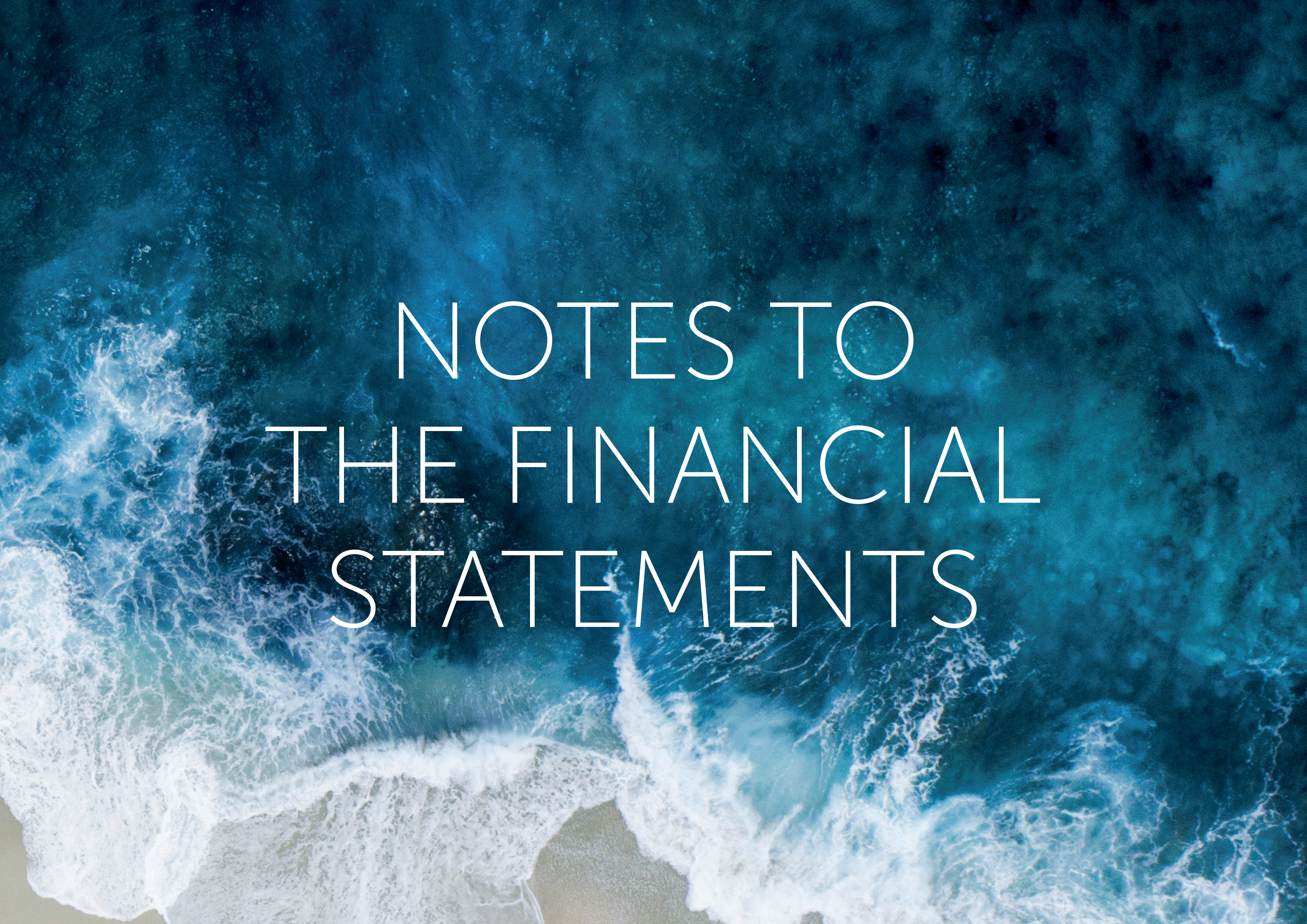
Tushar Kumar
Board Memeber

Helge Larssen Nordtorp
Board Member

Statement of cash flows

(Amounts in USD`000)	Note	2019	2018
Income before tax		25 700	25 682
Depreciation, amortisation and net impairment losses	13	22 021	11 588
Expensed capitalised exploration expenses	7	14 831	1 777
Accretion of asset removal liability	20	5 987	6 462
(Gains) losses on sales of assets	6	(29 909)	-
Deferred tax liability on sale of assets	12	3 243	-
(Increase) decrease in value of financial asset at fair value through profit or loss	6	8 327	(2 425)
(Increase) decrease operational financial asset	21	-	(5 650)
Net financial expenses		12 793	11 188
Interest and fees paid		(14 050)	(11 647)
(Increase) decrease in working capital		11 277	6 143
Tax payable received (paid)		8 513	10 468
Net cash flow from operating activities		**68 732**	**53 587**

(Amounts in USD`000)	Note	2019	2018
Payment for removal and decommissioning of oil fields	20	(7 279)	(25 415)
Capital expenditures and investments in furniture, fixtures and office machines	13	(169)	(19)
Capital expenditures and investments in oil and gas assets	13	(126 060)	(51 965)
Capital expenditures and investments in exploration and evaluation assets	14	(36 388)	(10 504)
Cash flow from divestments	6	51 324	-
Net cash flow from investing activities		**(118 571)**	**(87 902)**
Increase interest bearing obligations, loans and borrowing		94 443	149 553
Decrease interest bearing obligations, loans and borrowing		(17 179)	(105 070)
Net cash flow from financing activities		**77 264**	**44 483**
Net change in cash and cash equivalents		**27 424**	**10 168**
Cash and cash equivalents at the beginning of the period		**19 133**	**8 965**
Cash and cash equivalents at the end of the period		**46 557**	**19 133**



NOTES TO THE FINANCIAL STATEMENTS

Notes to the financial statements

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 licences 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 AS is a private oil and gas company focusing on exploration, appraisal, development and production opportunities on the Norwegian Continental Shelf.

The financial statements of the Company for the period ending 31 December 2019 were authorised for issue in accordance with a resolution of the Board of Directors ("the Board") on 31 March 2020.

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 statement 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 statement 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 statement of cash flows has 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 (licences) 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.

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Company. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

The Company has, with effect from 1 January 2019, implemented the amendments to IFRS 9 Prepayment features with negative compensation, IAS 19 Plan amendment, curtailment or settlement, IAS 28 Long-term Interests in Associates and Joint Ventures, IFRIC 23 Uncertainty over income tax treatments and annual improvements to IFRSs 2015-2017. The implementation of these standards has not had a material impact on the entity in the current reporting period.

From 1 January 2019, the Company has applied IFRS 16 Leases using the modified retrospective approach. Therefore, the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The new accounting policies for leases and transition effects to IFRS 16 are outlined in note 24.

Functional and presentation currency and foreign currency translations
The functional and presentation currency of the Company is USD, based on an evaluation of the Company's primary economic environment and related cash flows. The cash flows from ordinary sales and financing activities are mainly generated in USD. The currency that influences costs is a mix of NOK and USD, where NOK is the main 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 financial 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.

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 an 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
Revenues from sale of petroleum products are recognised in the statement of income. Sales of oil and gas are recognised upon delivery of products and customer acceptance.

Lifting or offtake arrangements for oil and gas produced in the Company's jointly owned operations are such that each participant may not receive and sell its precise share of the overall production in each period. The resulting imbalance between cumulative entitlement and cumulative production after permanent differences less stock is underlift or overlift. Underlift and overlift are valued at production cost including depreciation and presented as an adjustment to cost.

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 statement of income.

Oil exploration companies operating on the Norwegian Continental Shelf under the offshore tax regime can claim a 78 per cent 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 statement 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 according to pension insurance plans.

Management incentive plan
Management long term incentive plan offers rewards by an eventual exit event in the Company. 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 others, exit value, discount rate and estimated probability of each employee to stay employed at the eventual 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 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 majority shareholder). 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 - licence 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 and operation (PDO) is approved by the Norwegian authorities or licence 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 programmes 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

All leases are recognised in the balance sheet as a right-of-use ("ROU") asset with a corresponding lease liability, except for short term assets in which the lease term is 12 months or less, or low value assets. ROU assets represent a right to use an underlying asset for the lease term and lease liabilities represent an obligation to make lease payments arising from the lease. Right-of-use assets are depreciated linearly over the lifetime of the related lease contract. The depreciation of ROU asset is recognised over the lease term, and interest expenses related to the lease liability are classified as financial items in the income statement.

Pandion Energy determines if an arrangement is a lease at inception. The Company leases office facilities and IT equipment. Rental contracts are typically made for fixed periods. Lease terms are negotiated on an individual basis and contain a range of different terms and conditions.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments, less any lease incentives. The Company's incremental borrowing rate based on the information available at commencement date is used in determining the present value of lease payments. Extension options are included when it, based on management's judgement, is reasonably certain to be exercised.

ROU assets are measured at cost and include the amount of the initial measurement of lease liability, any lease payments made at or before the commencement date less any lease incentives received, any initial direct costs, and restoration costs. Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the income statement. Short-term leases are leases with a lease term of 12 months or less and low-value assets comprise IT equipment and small items of office furniture.

Pandion Energy is a non-operator and recognises its proportionate share of a lease when Pandion Energy is considered to share the primary responsibility for a licence committed liability. This includes contracts were Pandion Energy has co-signed a lease contract, or contracts for which the operator has been given a legally binding mandate to sign the external lease on behalf of the licence partners.

The Company has commitments pertaining to its ownership in partner operated oil and gas fields where the operator has entered into lease agreements for rigs in the licence. These commitments are not recognised in the Company's statement of financial position. Please refer to note 24 in the financial statements for further details.

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 and operation (PDO) is approved by the Norwegian authorities or licence 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 fair value of the identifiable assets acquired, and liabilities assumed in a business combination at the acquisition date. Goodwill is also recognised as the offsetting accounting entry to the deferred tax liability booked on the differences between the assigned fair value of an asset and the related tax base acquired in a business combination. 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 statement of financial position, unless Pandion Energy 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 statement of financial position.

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 insignificant 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 (hydrocarbons) and the Company's 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 independent 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'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 less cost of disposal is determined based on comparable recent arm's length market transactions or based on Pandion Energy'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 Energy 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 licence.

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 statement 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 production 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 significant.

Derivative financial instruments
The Company has entered into derivative contracts through the financial year. Most of the contracts are over-the-counter (OTC) transactions. OTC transactions consist of (i) contracts that are bilaterally negotiated and settled between Pandion Energy and the counterparty of the contract, and (ii) contracts that are bilaterally negotiated and then cleared through a central counterparty.

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 Financial Instruments 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 and 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 Company. The basis for the monthly capitalisation is the capitalised assets for each project.

Operating 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 time-writing.

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 in the statement of income.

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 for ARO are classified on a separate line in the statement of financial position.

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 statement 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 statement 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. 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 statement 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 generating 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 carrying 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
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 is 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 flows from sale of crude oil through commodity price hedging.

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 preferably 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. 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 17 for information about the floating interest rate conditions on the Revolving Exploration Finance Facility. Borrowings issued with floating interest rate conditions expose the Company to interest rate risk. To mitigate the risk arising from variable interest payable on the Unsecured Bond, the Company has entered into interest rate swaps.

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 always has sufficient funds available to cover its financial liabilities. To identify current and future financing needs, Pandion Energy carries out short-term (12 months) and long-term forecasts to plan the Company's liquidity. These forecasts are updated regularly, for various scenarios and form part of the decision basis for the Company's management and Board of Directors.

Pandion Energy's debt financing includes a reserve-based lending (RBL) facility of USD 150 million with an additional uncommitted accordion of USD 150 million, a senior unsecured bond of NOK 400 million, and revolving exploration finance facility of NOK 400 million. Please refer to note 17 in the financial statements for further details.

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 (FVTOCI) and at fair value through profit or loss (FVTPL), favourable derivative financial instruments and deposits with banks and financial institutions. There are also minor credit exposures related to trade receivable and overcall joint ventures. The Company's licence partners are credit worthy oil companies, and cash and cash equivalents are receivables from banks.

NOTE 4 ASSET ACQUISITIONS AND DISPOSALS

Acquisition of exploration licences:

Acquired in 2019:

Licence	Interests acquired
PL 842	30 %
PL 263	20 %
PL 891	20 %

In 2019, Pandion Energy has undertaken a transaction with Aker BP to acquire 30 per cent of working interest in PL 842 with effective date 1 January 2019. In addition, 20 per cent of working interest in PL 283 was acquired from Equinor Energy AS, and 20 per cent of working interest in PL 891 was acquired from ConocoPhillips Skandinavia AS.

Acquired in 2018:

Licence	Interests acquired
PL 820 S	10 %

In 2018, Pandion Energy undertook a transaction with Wintershall Norge AS to acquire a 10 per cent of working interest in PL 820 S. The effective date was 1 January 2018 and the transaction was approved by Norwegian Authorities with a completion date in December 2018.

Disposals and relinquishment of licences

Disposals in 2019:

Licence	Interests disposed
PL 636/PL626 B	10 %

On 31 December 2019, Pandion Energy completed the divestment of a 10 per cent of working interest in the Duva field to Sval Energi AS with an effective date of 1 January 2019.

Relinquishment in 2019:

Licence	Interests disposed
PL 776	40 %
PL 842	30 %
PL 912	30 %

In 2019, the relinquishment of PL 776, PL 842 and PL 912 were accounted for due to licence decisions of relinquishment. The actual relinquishment of PL 842 and PL 912 took place in 2020.

Relinquishment in 2018:

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

In 2018, the relinquishment of PL 746 S, PL 786 and PL 826 were accounted for due to licence decisions of relinquishment. The actual relinquishment of the licences took place in February 2019.

NOTE 5 INVESTMENTS IN JOINT VENTURES

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

Licence source	Licence portfolio	Feb-20	Dec-19	Jan-19
Acquisitions	PL 006 Valhall	10 %	10 %	10 %
Acquisitions	PL 033 Hod	10 %	10 %	10 %
Acquisitions	PL 033 B	10 %	10 %	10 %
Acquisitions	PL 263 D & E	20 %	20 %	0 %
Acquisitions	PL 636 Duva	0 %	10 %	20 %
Acquisitions	PL 746 S	0 %	0 %	30 %
Acquisitions	PL 776	0 %	0 %	40 %
Acquisitions	PL 786	0 %	0 %	50 %
Acquisitions	PL 820 S	10 %	10 %	10 %
Acquisitions	PL 826	0 %	0 %	30 %
Acquisitions	PL 842	30 %	30 %	0 %
Acquisitions	PL 891	20 %	20 %	0%
APA 2017	PL 912	30 %	30 %	30 %
APA 2017	PL 929	20 %	20 %	20 %
APA 2018	PL 636B	0 %	10 %	20 %
APA 2018	PL 985	20 %	20 %	20 %
APA 2019	PL 1047	20 %	0 %	0 %
APA 2019	PL 1062	30 %	0 %	0 %

In January 2019, the Company was awarded two licences in the APA 2018 round. Following the award, the Company hold a total of 13 licences. In January 2020, the Company was awarded two licences in the recently announced APA 2019 round.

In November 2019, Pandion Energy agreed to divest its 10 per cent share to PGNiG Upstream Norway AS in PL 636 and PL 636 B. The transaction was approved in January 2020 by the Norwegian Ministry of Petroleum and Energy and completed in February 2020. The Company holds a total of 12 licences after the APA 2019 awards and divestment of the remaining 10 per cent share in Duva field.

Note 6 REVENUES AND OTHER INCOME

Revenues	2019	2018
(Amounts in USD` 000)		
Oil	93 926	90 447
Gas	8 028	8 271
NGL	1 484	1 870
Other	50	-
Total revenues	**103 489**	**100 588**

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

Other income	2019	2018
(Amounts in USD` 000)		
Realised gain/(loss) on oil derivates	(3 843)	(1 664)
Unrealised gain/(loss) on oil derivates	(4 484)	4 089
Total other income	**(8 327)**	**2 425**

Gains from sale of assets	2019	2018
(Amounts in USD` 000)		
Payment received	51 324	-
Net assets divested	(24 658)	-
Deferred tax	3 243	-
Gains from sale of assets	**29 909**	**-**

On 31 December 2019, Pandion Energy completed the divestment of a 10 per cent working interest in the Duva field to Sval Energi AS with an effective date of 1 January 2019. The transaction involved a consideration of USD 51.3 million, including working capital and historical tax and uplift balances.

The transaction resulted in a net after tax accounting gain of USD 29.9 million arising from the difference between the payment received and the book value of the associated assets being divested. The after tax accounting gain is reported as gain from sale of assets as detailed in the above table.

NOTE 7 EXPLORATION AND OPERATING EXPENSES

Exploration expenses	2019	2018
(Amounts in USD` 000)		
Expensed cost, seismic and studies	213	-
Expensed cost, general and administrative	9 035	6 964
Expensed exploration expenditures previously capitalised	14 831	1 777
Expensed other exploration cost	-	113
Total	**24 078**	**8 854**

Operation expenses	2019	2018
(Amounts in USD` 000)		
Change in inventories	2 056	6 452
Transportation cost	5 347	5 212
Production cost	25 974	26 174
Other cost	1 199	1 438
Total	**34 576**	**39 276**

NOTE 8 REMUNERATION

	2018	2017
(Amounts in USD` 000)		
Salaries	7 434	7 219
Social security tax	874	752
Pension expenses	442	382
Other remuneration	144	136
Total payroll expenses	**8 894**	**8 488**

The Company had an average of 23.1 employees in 2019 compared to 19.7 in 2018. The number of employees as of year-end was 24 compared to 22 at the end of 2018.

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 per cent. It will be up to the Board to decide whether to pay bonuses on the previous years ‘performance. For 2019, the bonus will be disbursed in March 2020.

In addition, Management Team and Key Employees take part in a long-term incentive plan offering rewards by an eventual exit event in the Company.

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

Compensation to CEO	2019	2018
(Amounts in USD` 000)		
Salaries	302	304
Bonuses	156	151
Pension expenses	20	21
Other remuneration	3	21

The CEO is part of a bonus scheme with annual benefits ranging from 0-50 per cent 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 in the Company. The CEO has the right to severance pay of 6 months if certain conditions should occur.

The compensation to the Chairman of the Board was USD 50 000 in 2019 and USD 50 000 in 2018.

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

Jan Christian Ellefsen (the CEO) and Helge L. Nordtorp (deputy CEO & VP BD) are both members of the Board of Directors and indirectly own 0.68 per cent and 0.5 per cent of the shares in Pandion Energy AS, respectively.

NOTE 9 RESTRICTED BANK DEPOSITS

Restricted bank deposits	**2019**	**2018**
(Amounts in USD` 000)		
Pledge account exploration finance facility	2 134	-
Withheld employee taxes	287	357
Total	**2 421**	**357**

NOTE 10 AUDITORS' REMUNERATION

	2019	**2018**
(Amounts in USD` 000)		
Audit fee	75	82
Other attestation services	5	12
Other services	14	40
Total	**94**	**134**

NOTE 11 FINANCIAL ITEMS

	2019	**2018**
(Amounts in USD` 000)		
Net foreign exchange gains (losses)	(101)	(874)
Interest income	192	165
Amortised loan costs	(678)	(449)
Accretion expenses	(5 987)	(6 462)
Interest expenses	(11 948)	(8 930)
Other financial items	(259)	(1 100)
Net financial items	**(18 780)**	**(17 650)**

NOTE 12 INCOME TAXES

	2019	**2018**
(Amounts in USD` 000)		
Tax receivable from exploration refund	(20 299)	(9 102)
Change deferred tax balance sheet	16 394	32 544
Change deferred tax from acquisition recorded directly to balance sheet or OCI	245	727
Deferred taxes recognised as part of gain from sale	3 243	-
Adjustments related to prior periods	89	(32)
Income tax expense	**(329)**	**24 137**
Income tax expense in OCI	(245)	(727)
Total income tax expense	**(573)**	**23 410**

Reconciliation of Norwegian statutory tax rate to effective tax rate

	2019	**2018**
(Amounts in USD` 000)		
Income before tax:	25 698	25 682
Calculated income taxes at:		
Statutory tax rate 22% (23%)	5 654	5 907
Petroleum surtax at statutory tax rate 56% (55%)	14 391	14 125

Tax effect of:		
Tax effect related to permant differences	(30 100)	(309)
Effect of items allocated onshore	5 905	7 818
Change in deferred tax related to financial items	2 728	(3 857)
Effect change tax rates	-	(53)
Effect related to interest on loss carried forward	(225)	(83)
Uplift	(4 538)	(1 434)
Adjustments prior period	124	(1 352)
Deferred tax assets not recognised	3 190	157
Deferred tax recognised as part of gain from sale of assets	3 243	-
Translation differences	(701)	3 218
Total	**(329)**	**24 137**
Effective tax rate	-1.3 %	94.0 %

When computing the petroleum tax of 56 per cent on income from the Norwegian Continental Shelf, a tax-free allowance, or uplift, is granted at a rate of 5.2 per cent per year. 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 2019, unrecognised future uplift credits related to capitalised cost amounted to USD 12 million, and recognised future uplift amounted to USD 0.5 million.

The negative effective tax rate in 2019 was primarily caused by the effect related to permanent differences arising from received after tax consideration on sale of assets.

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

	2019	**2018**
(Amounts in USD` 000)		
Deferred tax assets on		
Losses carry forward	8 897	7 906
Loss carry forward not recognised	(520)	(157)
Future uplift recognised in PPA	581	1 251
Uplift carry forward	9 646	4 388
Asset retirement obligations	135 415	127 578
Inventories	935	-
Other items	3 502	1 804
Total deferred tax assets	158 456	142 770
Deferred tax liabilities on		
Property, plant and equipment	(158 184)	(133 713)
Capitalised exploration expenditures and capitalised interest	(20 399)	(10 479)
Inventories	-	(1 254)
Other items	(1 471)	(2 526)
Total deferred tax liabilities	(180 054)	(147 972)
Net deferred tax liabilities	**(21 597)**	**(5 202)**
Deferred tax assets reclassified to assets held for sale	7 142	-
Net deferred tax liabilites in balance sheet	**(14 455)**	**(5 202)**

The movement in deferred income tax:

	2019	**2018**
(Amounts in USD` 000)		
Deferred income tax at 1 January	(5 202)	27 342
Deferred tax assets reclassified to assets held for sale	7 142	-
Charged to the statement of income	(16 639)	(31 818)
Charged to OCI	245	(727)
Deferred income tax liability at 31 December	**(14 455)**	**(5 202)**

NOTE 13 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
Asset removal obligation - Change of estimate	316	-	316
Transfers	28 130	-	28 130
Depreciation	11 551	37	11 588
Carrying amount at 31 December 2018	**198 675**	**68**	**198 743**
Additions	126 060	169	126 229
Disposals	(27 226)	-	(27 226)
Asset removal obligation - Change of estimate	11 340	-	11 340
Transfers to Assets held for sale	(27 260)	-	(27 260)
Transfers	25 789	-	25 789
Depreciation	21 936	85	22 021
Carrying amount at 31 December 2019	**285 441**	**152**	**285 594**
Estimated useful lives (years)	UoP	3-10	

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

NOTE 14 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 licence 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**
Acquisition	-	198	198
Capitalised licence costs	-	36 190	36 190
Expensed exploration expenditures previously capitalised	-	(14 831)	(14 831)
Disposals	-	(1 141)	(1 141)
Transfers to Assets held for sale	-	(1 154)	(1 154)
Transfers	-	(25 789)	(25 789)
Carrying amount at 31 December 2019	**124 785**	**52 583**	**177 368**

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

Expensed exploration expenditures previously capitalised is mainly related to dry targets in the combined appraisal and exploration well at the Hod field and a dry well in PL 842 (Godalen) together with relinquishment of PL 776, and relinquishment decision in licences PL 842 and PL 912.

The transfers to assets held for sale and disposal are related to divestment of 20 per cent share in the Duva field. See Note 13 Property, plant and equipment for further details.

NOTE 15 ASSETS CLASSIFIED AS HELD FOR SALE

	Total
(Amounts in USD` 000)	
Carrying amount at 31 December 2018	-
Capitalised cost related to exploration	28 414
Prepayments & receivables	3 498
Deferred tax	(7 142)
Accruals	(7 207)
Carrying amount at 31 December 2019	**17 563**

In November 2019, Pandion Energy agreed to divest its 20 per cent share in the Duva field through two transactions, one with PGNiG Upstream Norway AS and one with Sval Energi AS, each acquiring a 10 per cent share in PL 636 and PL 636B.

The transaction with Sval Energi AS was approved by the Norwegian Ministry of Petroleum and Energy in December 2019 and completed 30 December 2019.

The remaining 10 per cent share, divested to PGNiG Upstream Norway AS, was completed in February 2020. 10 per cent of the Duva share is therefore presented as a current asset held for sale in the financial statements for 2019 at its carrying amount. Assets held for sale are measured at the lower of carrying amount and fair value less cost of sales.

NOTE 16 IMPAIRMENTS

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

Two categories of impairment tests have been performed as at 31.12.2019:

- Impairment test of oil and gas assets and related intangible assets
- Impairment test of goodwill

No impairments of oil and gas assets and related intangible assets or goodwill were recognised in 2019.

The amount of goodwill recognised in the statement of financial position consists of technical and ordinary goodwill and relates entirely to the acquisition of interest in the Valhall & Hod fields.

The main part (USD 118 million) of the Company's goodwill is technical goodwill related to the requirement to recognise deferred tax for the difference between the assigned fair values and the related tax base. Technical goodwill was recognised as the counter entry for deferred tax on oil fields by the acquisition. Ordinary goodwill (USD 7 million) represents the excess purchase price after all the identifiable assets and liabilities were recognised.

Technical goodwill is tested for impairment separately for Valhall & Hod fields which gave rise to the technical goodwill. The carrying value of Valhall & Hod fields consists of the carrying values of the oil field assets plus associated technical goodwill. When deferred tax liabilities from the acquisitions decreases as a result of depreciation, more technical goodwill as a result is exposed for impairment. This may lead to future impairment charges even if other assumptions remain unchanged.

Ordinary goodwill is allocated to both Valhall & Hod and Duva fields and tested for impairment accordingly. Both Valhall & Hod and Duva oil fields benefit from operational and tax synergies of the acquisition.

In the assessment of whether an impairment is required at 31 December 2019, the recoverable amount of assets is estimated based on discounted future after tax cash flows. Pandion Energy has used a combination of the oil price forward curve for 2020 and 2021, a mean of market participant view from 2022 to 2025 and a 2 per cent inflation of the 2025 market participant view from 2026 and onwards, a future cost inflation rate of 2 per cent per annum and a discount rate of 8 per cent to calculate the future post tax cash flows. Below is an overview of the key assumptions applied for impairment testing purposes as of 31 December 2019.

Year	2020	2021	2022	2023	2024	2025	From 2026
Brent oil price, USD/BOE, in real terms	64.45	58.60	62.88	62.29	61.72	61.77	61.77
Currency rates, USD/NOK	8.78	8.79	8.61	8.44	8.26	8.09	7.91

The table below shows how the impairment of Valhall & Hod and Duva fields including goodwill would be affected by changes in the various assumptions, given that the remaining assumptions are constant.

Assumption	**Impairment**
(Amounts in USD` 000)	
Commodity prices reduction of 10%	23 297
Commodity prices reduction by 40% in 2020 and 2021	19 000
Production volume (reserves) reduced by 5%	7 291
Discount rate increased by 1% point	5 345
USD/NOK reduced by 1 NOK/USD	-
Inflation reduced by 1% point	3 653

During the first quarter of 2020, the oil price collapse has resulted in increased uncertainty in the key assumptions applied for the impairment testing purposes, primarily commodity price assumptions. The full extent and consequences of the oil price collapse, and the resulting impairment indication cannot be quantified at the time of publication of these financial statements. Please refer to note 27 for further details.

NOTE 17 BORROWINGS

Revolving Exploration Finance Facility

	Interest	**Maturity**	**Carrying amount**
(Amounts in USD'000)			
At 31 December 2019	NIBOR + 1.25 %	Dec 2019	23 071
At 31 December 2018	NIBOR + 1.25 %"	Dec 2019	5 975

The total credit limit for the Company at 31 December 2019 was NOK 400 million.

The Company signed a revolving Exploration Finance Facility Agreement on 13 November 2017 of NOK 400 million. The facility is made available through the banks SEB and BNP Paribas, with SEB as lead manager. The availability period of the facility is extended up to and including 31 December 2019, with repayment during fourth quarter 2020.

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

	2019	**2018**
(Amounts in USD` 000)		
Current tax receivable - exploration refund	20 296	9 094
Total	**20 296**	**9 094**

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 licences for which no plan for development and operation (PDO) has been submitted.

Reserve Base Lending Facility Agreement (RBL)

	Interest	**Maturity**	**Carrying amount**
(Amounts in USD'000)			
At 31 December 2019	LIBOR + 3.5%	April 2025	130 419
At 31 December 2018	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 per cent. 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 USD 10 million
- Exploration spending after tax on a yearly basis restricted to the higher of USD 10 million and 10 per cent of EBITDAX unless such spending is funded by new cash equity or subordinated shareholder loan

** Please refer to page 70 for descriptions of alternative performance measures*

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

	2019
(Amounts in USD` 000)	
Bank accounts excluding pledge account EFF	44 136
Borrowing base assets*	148 718
Trade receivables	11 343
Inventory	(332)
Hedging agreements	(252)
Total	**203 613**

* The carrying amount of the assets includes working capital and retirement obligations 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), licence 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

	Interest	Maturity	Carrying amount
(Amounts in USD'000)			
At 31 December 2019	10.61%	April 2023	44 607
At 31 December 2018	10.61%	April 2023	45 089

The bond is an unsecured bond of NOK 400 million 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 per cent. The bond has similar covenants as the RBL facility. For further information about the currency and interest rate swaps see note 24.

Non-current liabilities 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
(Amounts in USD` 000)		
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

	2019	2018
(Amounts in USD` 000)		
Less than 12 months	23 208	6 236
1 to 5 years	50 967	50 967
Over 5 years	134 100	74 100
Total	**208 275**	**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 AS's joint venture licences.

NOTE 19 EQUITY AND SHAREHOLDERS

	Share capital	Other paid in capital	Other reserves	Retained earnings	Total equity
(Amounts in USD` 000)					
Shareholders' equity as of 1 January 2018	**21 258**	**51 251**	**-**	**(2 599)**	**69 910**
Share issue - unregistered in 2017	51 251	(51 251)	-	-	-
Share issue	40 982	-	-	-	40 982
Net income for the period	-	-	-	1 545	1 545
Other comprehensive income (loss) for the period	-	-	(2 577)	-	(2 577)
Shareholders' equity as of 31 December 2018	**113 491**	**-**	**(2 577)**	**(1 054)**	**109 861**
Share issue	-	-	-	-	-
Net income for the period	-	-	-	26 029	26 029
Other comprehensive income (loss) for the period	-	-	(869)	-	(869)
Shareholders' equity as of 31 December 2019	**113 491**	**-**	**(3 446)**	**24 975**	**135 021**

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 AS and Kerogen has been executed for USD 190 million in equity, of which USD 109 million has been injected as of 31.12.2019.

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

Pandion Energy Holding AS owns all 911 921 294 shares in Pandion Energy AS as at 31 December 2019. The Company is included in the consolidated financial statements of the parent company Pandion Energy Holding AS. The consolidated financial statements of the parent company 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 at 31 December 2017	**182 198**
Effects of change in estimates	316
Amounts charged against asset retirement obligations	(25 415)
Accretion expenses	6 462
Asset retirement obligations at 31 December 2018	**163 561**
New or increased provisions	12 890
Asset removal obligation - Change of estimate	(1 550)
Amounts charged against asset retirement obligations	(7 279)
Accretion expenses	5 987
Asset retirement obligations at 31 December 2019	**173 609**
Non-current portion at 31 December 2019	156 875
Current portion at 31 December 2019	16 734

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

NOTE 21 FINANCIAL ASSETS (LIABILITIES) AT FAIR VALUE THROUGH PROFIT OR LOSS

(Amounts in USD` 000)	
Financial assets at 31 December 2017	**-**
New contracts at cost	5 650
Expired contracts at cost	(1 664)
Financial assets at 31 December 2018 before value increase/decrease	**3 986**
Value increase (decrease)	4 089
Financial assets at 31 December 2018	**8 075**
New contracts at cost	-
Expired contracts at cost	(3 843)
Financial assets at 31 December 2019 before value increase/decrease	**4 232**
Value increase (decrease)	(4 484)
Financial assets (liabilities) at 31 December 2019	**(252)**

The Company has focused on securing liquidity and thus entered an oil price hedging programme to reduce the risk related to oil prices. At the end of the 2019, Pandion Energy had put in place a hedging programme until 30.09.2020. Most of the existing hedging programme is based on put options, however part of the hedging is collar structures. At the end of 2019, the expected post-tax volumes for the first three quarters of 2020 were hedged at an average strike of USD 55.4/bbl (USD 53.2/bbl net of costs). The negative fair value of the options at 31.12.2019 is explained by the options are purchased with deferred premium.

NOTE 22 TRADE, OTHER PAYABLES AND PROVISIONS

	2019	**2018**
(Amounts in USD` 000)		
Trade payables	6 517	1 770
Joint venture payables	15 163	16 443
Other non-trade payables, accrued expenses and provisions	12 170	7 286
Trade, other payables and provisions	**33 849**	**25 499**

NOTE 23 DESIGNATED ACCOUTNING HEDGES

The Company applies hedge accounting for hedges that meet the criteria for hedge accounting. 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 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 Pandion Energy's cross-currency interest rate swaps the Company receives floating rate NOK and pays floating rate USD. The key terms of the cross-currency interest rate swaps are listed below.

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 Pandion Energy's interest rate swaps the Company is 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. The key terms of the interest rate swaps are listed below.

Terms of Interest Rate Swaps	
Trade 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)		Nominal amount of the hedging instrument	Carrying amount of the hedging instrument		Line item in the statement of financial position where the heding instrument is located	Changes in fair value used for calculation of hedge ineffectiveness for 2019
			Assets	**Liabilities**		
Cash flow hedges						
Foreign exchange risk	Cross-currency swap	51 610	-	8 059	Hedging derivatives	(282)
Interest rate risk	Interest rate swap	51 610	-	1 882	Hedging derivatives	(1 168)

Hedging reserve	Interest rate risk	Foreign exchange risk	Sum
Opening balance hedge reserve	167	(2 744)	(2 577)
Added to OCI: Change in fair value of hedging instrument recognised in OCI	(1 370)	(1 648)	(3 018)
Reclassified to statements of income – from OCI	1 434	470	1 904
Tax	(14)	259	245
Closing balance - hedge reserve	**218**	**(3 663)**	**(3 445)**

Amount reclassified to profit and loss

Transfers due to hedge item affecting profit or loss	
Interest rate risk	1 434
Foreign exchange risk	470

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

Financial Statement lines effected	
Interest rate risk	Net financial items
Foreign exchange risk	Net financial items

NOTE 24 LEASES AND COMMITMENTS

Pandion Energy adopted the accounting standard IFRS 16 Leases on 1 January 2019. IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 allows various adoption approaches. Pandion Energy applied the modified retrospective approach under which all right-of-use assets (ROU assets) are measured at an amount equal to the lease liability at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported under IAS 17 and related interpretations. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information. The difference between the operating lease commitments after IAS 17, as disclosed in the 2018 financial statements, and lease debt recognised at initial application is reconciled in the table below.

The Company applies exemption for short term leases (12 months or less) and low value leases. The lease does not contain any restriction on the Company's dividend policy or financing. Extension options are included when it, based on management's judgement, is reasonably certain to be exercised. The incremental borrowing rate applied in discounting of the nominal lease debt is 7 per cent. Right-of-use assets are depreciated linearly over the lifetime of the related lease contract.

	2019
(Amounts in USD` 000)	
Operating lease obligation 31.12.2018	**33 104**
Partner-licences rigs excluded	(31 871)
Adjustments related to option extension and termination clauses	356
Nominal lease debt 01.01.2019	1 589
Discounting	359
Operating lease debt 01.01.2019	**1 230**
New lease debt recognized in the period	375
Lease payments	(367)
Interest expense	92
Currency adjustments	(77)
Total lease debt after IFRS 16 31.12.2019	**1 253**

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- Right-of-use assets – increase by USD 1,230 thousand
- Long term lease liabilities – increase by USD 940 thousand
- Short term lease liabilities – increase by USD 289 thousand

Pandion Energy has recognised the lease related to office facilities as a lease after IFRS 16. The original contract runs for five years from 2018 and contains a renewal option for another three years. The company has entered into an additional agreement for extra office space running from June 2019. The lease has an arrangement with contingent payment if the Company brings the lease to an end after three years. The Contingent payment will then be equal to six months rental payment.

Nominal lease debt maturity break down	**2019**	**2018**
(Amounts in USD` 000)		
Within 1 year	533	279
1 to 5 years	1 040	954
After 5 years	-	-
Trade, other payables and provisions	**1 573**	**1 233**

Pandion Energy is a non-operator and recognises its proportionate share of a lease when Pandion Energy is considered to share the primary responsibility for a licence committed liability. This includes contracts were Pandion Energy has co-signed a lease contract, or contracts for which the operator has been given a legally binding mandate to sign the external lease on behalf of the licence partners.

The Company has commitments pertaining to its ownership in partner operated oil and gas fields where the operator has entered into lease agreements for rigs in the licence. 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 accommodation service unit, delivered in October 2018. The contract period is two years.

Long term commitments partner-licences rigs	**2 019**	**2 018**
(Amounts in USD` 000)		
Within 1 year	8 860	10 403
1 to 5 years	10 391	21 468
After 5 years	-	-
Total	**19 251**	**31 871**

Three exploration wells (PL 263, PL 891 and PL 929) are decided to be drilled during 2020-2022 where lease agreements for a rig have been entered into by the operator on behalf of partners. These lease commitments are not included in the 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 licence PL 263. The liability is limited to approximately USD 3 million. The Company has future contractual obligations related to development projects in non-operated licences of approximately USD 2.7 million.

The Company has secondary obligation for removal cost of offshore installations at Duva field related to the 10 per cent share divested to Sval Energi AS in 2019. The obligation is limited to approximately USD 3.3 million.

Pandion Energy is further required to participate in the approved work programmes for the licences. Pandion Energy'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 2019.

NOTE 26 RESERVES (UNAUDITED)

Proved and probable reserves	**mill barrels oil equivalents (mmboe)**
Balance at 1 January 2019	28.9
Revision of previous estimates	(0.2)
Discoveries, additions and extensions	22.0
Acquisition of reserves	-
Divestment of reserves	(8.6)
Year 2019 production	(1.6)
Total reserves at 31 December 2019	**40.5**

The Company`s proved and probable oil and gas reserves (2P) have been at the end of 2019 estimated to approximately 40.5 mmboe compared to approximately 28.9 mmboe in 2018. Reserves are classified in accordance with the Norwegian Petroleum Directorate's requirements and based on revised national budget (RNB) 2020 numbers received from the operators together with internal information. 8.6 mmboe of the total reserves relates to the remaining 10 per cent share in the Duva field, which is classified as held for sale.

NOTE 27 SUBSEQUENT EVENTS

In January 2020, Pandion Energy was awarded 2 licences in the APA 2019 round. Following the award, the Company now holds a total of 12 licences.

In November 2019, Pandion Energy agreed to divest its 10 per cent share to PGNiG Upstream Norway AS in PL 636 and PL 636 B. The transaction was approved in January 2020 by the Norwegian Ministry of Petroleum and Energy and completed in February 2020.

In February 2020, the partnership in PL 929 took a positive drill decision of the Ofelia prospect. The well is expected to be drilled early 2022.

On 17 March 2020, Pandion Energy and its partners, represented by the operator MOL Norge AS, Lundin Norway and Winterhall DEA Norge, announced oil and gas discoveries in PL 820 S, following the completion of the drilling of exploration well 25/8-19 S including sidetracks A and A2. Preliminary evaluation of the discovery in the Skagerrak Formation shows a recoverable resource potential of between 12 and 71 mmboe. This is the first exploration well in PL 820 S and the first discovery made by Pandion Energy.

Pandion Energy's business environment is volatile by nature, and the recent global events, with the corona pandemic (COVID-19) and oil price collapse, are both examples of this. The full duration and extension of the consequences following the coronavirus outbreak is hard to predict, and the time it will take to recover from the dramatic oil price drop is unknown. The resulting economic and operational impact for Pandion Energy is therefore challenging to predict, but it will represent an increased uncertainty related to the key assumptions applied in the valuation of the Company's assets and measurement of liabilities, especially when it comes to commodity price assumptions.

With the proceeds from the Duva divestment, steadily growing production at the Valhall field, headroom in the RBL facility and a significant undrawn equity reserve, Pandion Energy is in a strong financial position. Please see note 17 and note 19 for further information regarding borrowings and equity. However, in light of the recent dramatic oil price drop and an uncertain oil market outlook, it is essential for the Company to maintain liquidity and stay financially secure. Further bolstering of the capital structure and strict cost discipline will be considered to ensure sufficient liquidity in all scenarios.

Alternative performance measures

Pandion Energy may disclose alternative performance measures as part of its financial reporting as a supplement to the interim financial statements prepared in accordance with simplified IFRS and believes that the alternative performance measures provide useful supplemental information to stakeholders.

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 coss

Auditor´s report

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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 statement of financial position as at 31 December 2019, statement of income, 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 2019, 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

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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.

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.

Auditor´s report

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Independent Auditor's Report -
Pandion Energy AS

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, 31 March 2020
Deloitte AS

Mette Herdlevær

Mette Herdlevær
State Authorised Public Accountant (Norway)

Always deliver more than expected

Larry Page, Co-Founder of Google

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