



PANDION ENERGY

PANDION ENERGY

Interim Financial Statements
(unaudited)

First Quarter 2020





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Interim Financial Statements 1Q 2020

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Introduction



General information

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

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

Introduction



Accounting principles

These interim financial statements have been prepared on the bases of simplified IFRS pursuant to the Norwegian Accounting Act §3-9 and regulations regarding simplified application of IFRS issued by the Norwegian Ministry of Finance on 3 November 2014, thus the interim financial statements do not include all information required by simplified IFRS and should be read in conjunction with the Company annual financial statement as at 31 December 2019.

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

As described in the company's annual financial statements for 2019, 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.

For further detailed information on accounting principles, please refer to the Financial Statements for 2019.

First Quarter 2020 Summary



Financial review

Total revenue was USD 65.6 (22.5 in Q1 19) million, and reported operating profit USD 18.2 (0.1 in Q1 19) million. The higher revenue and operating profit in Q1 2020 is mainly due to the divestment of a 10% interest in the Duva field to PGNiG Upstream Norway AS, completed in February.

EBITDAX amounted to USD 58.0 million (12.2 in Q1 2019). Net profit came in at USD 7.9 million (-6.3 in Q1 2019).

Revenue was related to oil sales from the Valhall and Hod fields, (400 kboe in Q1 2020 compared to 407 kboe in Q1 2019). Our financial results in the quarter were impacted by lower commodity prices with an average realised oil price before hedging of USD 45.2 (64.8 in Q1 2019) per bbl.

The operating expenses amounted to USD 7.6 (10.3 in Q1 2019) million.

Investments in fixed assets amounted to USD 20.8 million driven by investments in the Valhall field, mainly Flank West development and Flank South West Infill Drilling.

The company's interest-bearing debt was USD 155.1 million at the end of the first quarter compared to USD 207.3 million at the end of fourth quarter 2019. The sale of Duva has not only demonstrated the significant value created through the investment in Duva, but also increased the Company's financial headroom materially.

Financial review cont.

Pandion Energy has a robust and diversified capital structure made up of committed equity of USD 193 million (of which 112 million injected to date), a Reserve Based Lending Facility of USD 150 million (the "RBL facility"), a senior Unsecured Bond Loan of NOK 400 million (the "Unsecured Bond"). The Company recently completed the six-monthly redetermination of its RBL Facility resulting in a revised borrowing base of USD 137.4 million. The Company has also agreed with existing lenders in the Exploration Finance facility of NOK 400 million to extend it by one year.

First Quarter 2020 Summary



Hedging

In order to reduce the risk related to oil price fluctuations, the Company has established an oil price hedging programme. At the end of April 2020, Pandion Energy had put in place a hedging programme until end of 2020. Most of the existing hedging program is based on put options, however part of the hedging is collar structures and swaps.

At the end of April, 122% of estimated after tax oil production volumes in the period May – December 2020 had been hedged. The hedging of more than 100% of estimated after tax oil production volumes are established in order to protect liquidity. The average floor in the hedging instruments is 43.5 USD/bbl. Additional positions may be added to the program going forward, however, the structure, amount and levels of any further hedging will depend on how the market for commodity derivatives develops.

Following the decrease in the long term oil prices during Q1 2020, the Company has recognised a gain from hedging presented as other income. The gain amounted to USD 7.4 million in Q1 2020, of which USD 1.0 million has been realised.

First Quarter 2020 Summary



Operational review

Valhall & Hod fields

Despite the challenging market conditions, the operational performance at Valhall & Hod fields was strong, with production of 5.6 (5.0 in Q4 2019) thousand barrels of oil equivalents per day net to Pandion during first quarter. This was 11 percent higher than the previous quarter driven by three additional wells brought on stream. At the end of March, Valhall noted a 500 consecutive-day streak of zero unplanned shutdowns.

At Flank West, drilling by the Maersk Invincible rig continued. At the end of the quarter, seven wells had been drilled and completed with further two wells remaining in the Flank West campaign.

Drilling, slot recovery and well intervention work were performed at the field centre. Stimulation operations are ongoing, and wells are successively brought onstream as they are stimulated.

Duva field

In November 2019, Pandion Energy agreed to divest its 20% share in the Duva field through two transactions, one with PGNiG Upstream Norway AS and one with Sval Energi AS, each acquiring a 10% share in PL 636 and PL 636B. The transaction with Sval Energi AS was completed in December 2019, while the transaction with PGNiG Upstream Norway AS was completed in the beginning of February 2020.

Exploration

In January 2020, Pandion Energy was awarded 2 licences in the APA 2019 round. Following the award, the Company now holds a concentrated exploration portfolio of nine licenses.

In February 2020, the partnership in PL 929 took a positive drill decision of the Ophelia prospect. The well is expected to be drilled early 2022. The exploration portfolio then holds a total of three firm exploration wells, of which two wells are planned to be drilled second half of 2020 or first half of 2021. Due to the ongoing COVID-19 pandemic, delays in the drilling program may occur.

On 18 March Pandion Energy announced its first exploration success through its 10% participating interest in exploration well 25/8-19 S and sidetracks A and A2. The wells, drilled in PL 820S, proved hydrocarbons at five different intervals. Preliminary evaluation of the living discovery in the Skagerak Formation shows recoverable resource of between 12 and 71 million boe within license area. Recoverable volumes associated with the Evra discovery in the Eocene/Paleocene injectite reservoir sands, oil in weathered/fractured basement and other oil and gas carrying layers are yet to be determined. The process of analysing data and samples gathered during the drilling operations are in an early phase and no decision has been made with regards to further appraisal activities.

First Quarter 2020 Summary



Covid-19 measures and consequences

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.

Pandion Energy is closely monitoring the situation with the objective of making sure necessary measures are taken to protect staff and operations. All employees are working from home and requested to comply with the directions give by the Norwegian health authorities. Pandion Energy is a non-operator and not directly involved in the executions of offshore operations on a day-to day basis. However as partner in Valhall & Hod fields the Company is actively in dialogue with the operator to ensure that all necessary steps are taken to protect offshore personnel against the pandemic. Extensive measures have been implemented by the operator at Valhall area to ensure safe and reliable operations. To date no cases of COVID-19 infection have been reported at any of the Valhall & Hod facilities. To minimise risks related to COVID-19, the operator is reducing overall activity level and number of offshore personnel to a minimum.

Except for the operations at Valhall & Hod fields, the Company is currently not directly involved in any offshore activities.

Covid-19 measures and consequences cont.

The full consequences of the coronavirus outbreak remain unknown, including the time required for the oil market to recover from the recent oil price drop. The resulting economic impact for Pandion Energy is therefore challenging to predict, except that it increases the uncertainty associated with its financial outlook.

With the dramatic drop in the oil price and the unknown time for recovery to previous scenarios the Company is currently taking all necessary steps to ensure that the Company remains financially sound also in a scenario with low oil prices for an extended period of time. This entails both cost reductions by scaling down activities and postponing projects. Together with the operator of Valhall & Hod fields, Aker BP, the Company is adapting to the low oil price environment by taking steps to protect and enhance near term production, reschedule and optimize ongoing projects, put non-sanctioned projects on hold, as well as reduce costs further where possible.

First Quarter 2020 Summary



Other activities

Pandion is monitoring the pricing of its senior unsecured bond loan and considers, to the extent permitted by the lenders under the RBL Facility and subject to market conditions, to take advantage of opportunities to repurchase bonds at value-accretive prices.

With the sale of the share (20%) in the Duva field the Company crystallise some of the value created in the asset portfolio to date, further strengthening Pandion Energy's capacity to act on future opportunities. Pandion Energy will continue to be an active and responsible partner in driving value in high quality assets on the Norwegian Continental Shelf. As part of this, the company actively searches for and evaluates opportunities to make value-accretive investments (e.g. through acquisitions, farm-ins, licencing rounds, swaps or other) and to divest assets to realise value created in its existing portfolio (e.g. through sale, farm-downs, swaps or other).

Statement of income

31 March 2020



(Amounts in USD'000)	Note	Q1 2020	Q1 2019	2019
Revenues		22 188	29 376	103 489
Gains from sale of assets		35 951	-	29 909
Other income		7 442	(6 836)	(8 327)
Total revenues and income	10	65 581	22 540	125 070
Operating expenses		(7 556)	(10 317)	(34 576)
Depreciation, amortisation and net impairment losses	1,3	(38 189)	(4 825)	(21 936)
Exploration expenses		(1 637)	(7 284)	(24 078)
Total expenses		(47 382)	(22 426)	(80 591)
Profit from operating activities		18 199	114	44 480
Net financial items	8	(5 829)	(6 040)	(18 780)
Profit before income tax		12 371	(5 926)	25 700
Income tax		(4 441)	(363)	329
Net profit		7 930	(6 289)	26 029

Statement of comprehensive income

31 March 2020



(Amounts in USD'000)	Q1 2020	Q1 2019	2019
Net income	7 930	(6 289)	26 029
<i>Items that may be subsequently reclassified to the Statement of income</i>			
Net gain/losses arising from hedges recognised in OCI	(3 076)	(369)	(3 018)
Net amount reclassified to profit and loss	486	(120)	1 904
Tax on items recognised over OCI	570	107	245
Other comprehensive income	(2 020)	(382)	(869)
Total comprehensive income	5 910	(6 671)	25 160

Statement of financial position

31 March 2020



Assets

(Amounts in USD'000)	Note	31.03.2020	31.03.2019	31.12.2019
Tax receivable from exploration refund		5 936	-	-
Goodwill	2,4	93 442	124 785	124 785
Intangible assets	2,4	58 364	64 500	52 583
Property, plant and equipment	1,4	299 538	213 720	285 593
Prepayments and financial receivables		113	138	135
Right-of-use assets		1 179	1 095	1 212
Total non-current assets		458 573	404 237	464 308
Inventories		3 322	6 228	3 864
Trade and other receivables		7 571	15 804	14 889
Assets classified as held for sale	3	-	-	17 563
Financial assets at fair value through profit or loss	9	7 252	1 239	-
Tax receivable from exploration refund - short term		15 139	10 661	20 296
Cash and cash equivalents		24 394	25 804	46 557
Total current assets		57 678	59 736	103 170
Total assets		516 251	463 973	567 478

Statement of financial position

31 March 2020



Equity and liabilities

(Amounts in USD'000)	Note	31.03.2020	31.03.2019	31.12.2019
Share capital		113 492	113 492	113 492
Other equity		27 439	(10 301)	21 529
Total equity	5	140 931	103 190	135 021
Deferred tax liability		22 373	7 017	14 455
Asset retirement obligations	6	156 942	152 312	156 875
Borrowings	7	123 936	135 040	176 027
Hedging derivatives		20 022	8 457	9 941
Long term lease debt	11	881	984	901
Total non-current liabilities		324 155	303 809	358 199
Asset retirement obligations - short term	6	15 857	10 778	16 734
Trade, other payables and provisions		18 918	31 054	33 849
Borrowings - short term	7	16 038	15 041	23 071
Financial liabilities at fair value through profit or loss	9	-	-	252
Short term lease debt	11	352	101	352
Total current liabilities		51 165	56 974	74 258
Total liabilities		375 320	360 783	432 457
Total equity and liabilities		516 251	463 973	567 478

Statement of cash flows

31 March 2020



(Amounts in USD '000)	Note	Q1 2020	Q1 2019	2019
Income before tax		12 371	(5 926)	25 700
Depreciation, amortisation and net impairment losses	1	38 213	4 825	22 021
Expensed capitalised exploration expenses	2	(123)	5 877	14 831
Accretion of asset removal liability	6	1 556	1 520	5 987
(Gains) losses on sales of assets		(35 951)	-	(29 909)
(Increase) decrease in value of financial asset at fair value through profit or loss	9	(7 442)	6 836	8 327
(Increase) decrease operational financial asset	9	(62)	-	-
Net financial expenses		4 273	4 520	12 793
Interest and fees paid		(3 035)	(2 722)	(14 050)
(Increase) decrease in working capital		(13 693)	(2 154)	14 520
Tax payable received (Paid)		-	-	8 513
Net cash flow from operating activities		(3 895)	12 776	68 733
Payment for removal and decommissioning of oil fields	6	(2 366)	(1 992)	(7 279)
Capital expenditures and investments in furniture, fixtures and office machines	1	(5)	(86)	(169)
Capital expenditures and investments in oil and gas assets	1	(20 810)	(19 730)	(126 060)
Capital expenditures and investments in exploration and evaluation assets	2	(5 658)	(11 268)	(36 388)
Cash flow from divestments		59 377	-	51 324
Net cash flow from investing activities		30 539	(9 257)	(118 571)
Increase interest bearing obligations, loans and borrowing		8 000	26 971	94 443
Decrease interest bearing obligations, loans and borrowing		(56 807)	-	(17 179)
Net cash flow from financing activities		(48 807)	26 971	77 264
Net change in cash and cash equivalents		(22 163)	6 671	27 424
Cash and cash equivalents at the beginning of the period		46 557	19 133	19 133
Cash and cash equivalents at the end of the period		24 394	25 804	46 557

Notes to the interim financial statements



NOTE 1 PROPERTY, PLANT AND EQUIPMENT

	Oil and gas assets	Tools and equipment	Total
(Amounts in USD'000)			
Carrying amount at 31 December 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
Additions	20 810	5	20 815
Depreciation	6 845	24	6 870
Carrying amount at 31 March 2020	299 405	133	299 539

Estimated useful lives (years) UoP 3-10

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

Notes to the interim financial statements



NOTE 2 INTANGIBLE ASSETS

	Goodwill	Exploration and evaluation assets	Total
(Amounts in USD'000)			
Carrying amount at 31 December 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
Capitalised licence costs	-	5 658	5 781
Expensed exploration expenditures previously capitalised	-	123	-
Impairment	31 343	-	31 343
Carrying amount at 31 March 2020	93 442	58 364	151 806

The amount of Goodwill entirely relates to the acquisition of interest in the Valhall and Hod oil fields. Expensed exploration expenditures previously capitalised is related to relinquished licences.

Notes to the interim financial statements



NOTE 3 ASSETS HELD FOR SALE

	Total
(Amounts in USD '000)	
Carrying amount at 31 December 2019	17 563
Deferred tax	7 142
Disposals	(24 705)
Carrying amount at 31 March 2019	-

In November 2019, Pandion Energy agreed to divest its 20% share in the Duva field through two transactions, one with PGNiG Upstream Norway AS and one with Sval Energi AS, each acquiring a 10% 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% share, divested to PGNiG Upstream Norway AS, was completed in February 2020. 10% of the Duva share was therefore presented as a current asset held for sale in the financial statements for 2019 at its carrying amount. Held for sale assets are measured at the lower of carrying amount and fair value less cost of sales.

Notes to the interim financial statements



NOTE 4 IMPAIRMENTS

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

In Q1 2020, two categories of impairment tests have been performed:

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

In the assessment of whether an impairment is required at 31 March 2020, Pandion Energy has used a combination of Brent forward curve from the beginning of Q2 2020 to the end of 2021, a mean of market participant view from 2022 to 2025 and a 2% inflation of the 2025 market participant view from 2026 and onwards, a future cost inflation rate of 2% per annum and a discount rate of 8% to calculate the future post tax cash flows.

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 (118 million USD) of the Company's goodwill as at 31.12.2019 was 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 (7 million USD) 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.

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

Following the decrease in the long term oil prices during Q1 2020 an divestment of the Duva field, the Company had recognised an impairment of goodwill amounting to USD 31 million. The amount includes impairment of total amount of ordinary goodwill, and part of technical goodwill related to acquisition of interest in the Valhall and Hod oil fields.

Notes to the interim financial statements



NOTE 5 EQUITY AND SHAREHOLDERS

(Amounts in USD '000)

	Share Capital	Other reserves	Retained earnings	Total equity
Shareholders' equity at 31 December 2018	113 491	(2 577)	(1 054)	109 861
Net income for the period	-	-	26 029	26 029
Other comprehensive income (loss) for the period	-	(869)	-	(869)
Shareholders' equity at 31 December 2018	113 491	(3 446)	24 975	135 021
Net income for the period	-	-	7 930	7 930
Other comprehensive income (loss) for the period	-	(2 020)	-	(2 020)
Shareholders' equity at 31 March 2019	113 491	(5 466)	32 905	140 931

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

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

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

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

Notes to the interim financial statements



NOTE 6 ASSET RETIREMENT OBLIGATIONS

	Asset retirement obligations
<hr/>	
(Amounts in USD '000)	
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 2018	173 609
<hr/>	
Amounts charged against asset retirement obligations	(2 366)
Accretion expenses	1 556
Asset retirement obligations at 31 March 2019	172 800
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Non-current portion 31 March 2020	156 942
Current portion 31 March 2020	15 857

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

Notes to the interim financial statements



NOTE 7 BORROWINGS

Revolving Exploration Loan Facility

	Facility currency	Utilised amount	Undrawn facility	Interest	Maturity	Carrying amount
(Amounts in USD'000)						
At 31 March 2020	NOK	16 117	21 957	NIBOR + 1.25 %	Dec 2019	16 038
At 31 December 2019	NOK	23 208	23 348	NIBOR + 1.25 %	Dec 2019	23 071

The total credit limit for the Company at 31 March 2020 was TNOK 400 000.

The Company signed a Revolving Exploration Finance Facility Agreement on 13 November 2017 of TNOK 400 000. The facility is made available through the banks SEB and BNP Paribas, with SEB as lead manager. The availability period of the facility was until 31.12.2019.

Unsecured Bond

	Facility currency	Utilised amount	Interest	Maturity	Carrying amount
(Amounts in USD'000)					
At 31 March 2020	NOK	50 967	10.61%	April 2023	37 429
At 31 December 2019	NOK	50 967	10.61%	April 2023	44 607

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

Notes to the interim financial statements



NOTE 7 BORROWINGS (cont)

Reserve Base Lending Facility Agreement (RBL)

	Facility currency	Utilised amount	Undrawn facility	Interest	Maturity	Carrying amount
(Amounts in USD'000)						
At 31 March 2020	USD	88 000	62 000	LIBOR + 3.5%	April 2025	85 508
At 31 December 2019	USD	133 100	16 900	LIBOR + 3.5%	April 2025	130 419

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

The financial covenants are as follows:

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

Notes to the interim financial statements



NOTE 7 BORROWINGS (cont)

Non-current Liabilities to related parties

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

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

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

Maturity profile on total borrowings based on contractual undiscounted cash flows

(Amounts in USD'000)	Q1 2020	2019
Less than 12 months	16 117	23 208
1 to 5 years	50 967	50 967
Over 5 years	89 000	134 100
Total	156 084	208 275

Notes to the interim financial statements



NOTE 8 FINANCIAL ITEMS

	Q1 2020	Q1 2019	2019
(Amounts in USD'000)			
Net foreign exchange gains (losses)	(721)	(358)	(101)
Interest income	65	31	192
Amortised loan costs	(248)	(216)	(678)
Accretion expenses	(1 556)	(1 520)	(5 987)
Interest expenses	(3 240)	(3 955)	(11 948)
Other financial items	(129)	(22)	(259)
Net financial items	(5 829)	(6 040)	(18 780)

Notes to the interim financial statements

NOTE 9 FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

(Amounts in USD'000)

Financial assets at 31 December 2018	8 075
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 at 31 December 2018	(252)
Realised gain	1 146
Expired contracts at cost	(95)
Financial assets at 31 March 2020 before value increase/decrease	798
Value increase (decrease)	6 453
Financial assets at 31 March 2020	7 252

The Company has focused on securing liquidity and thus entered an oil price hedging program to reduce the risk related to oil prices. At the end of April 2020, Pandion had put in place a hedging program until end of 2020. Most of the existing hedging program is based on put options, however part of the hedging is collar structures and swaps. The negative fair value of the options at 31.12.2019 is explained by the options are purchased with deferred premium. The realised gain on derivatives as at 31.03.2020 was settled in April 2020.

Notes to the interim financial statements



NOTE 10 SEGMENT INFORMATION AND DISAGGREGATION OF REVENUE

All revenues are generated from activities on the Norwegian continental shelf (NCS), and derives from Oil, Gas and NGL. As a result, Pandion Energy has decided not to include segment information as this would only state the same financials already presented in the statement of income and statement of financial position.

The Company's revenue is disaggregated as follows:

Revenues	Q1 2020	Q1 2019	2019
Oil	18 091	26 309	93 926
Gas	3 774	2 467	8 028
NGL	323	599	1 484
Other	-	-	50
Total revenues	22 188	29 376	103 489

Other income	Q1 2020	Q1 2019	2019
Realised gain/(loss) on oil derivatives	989	(776)	(3 843)
Unrealised gain/(loss) on oil derivatives	6 453	(6 060)	(4 484)
Total other income	7 442	(6 836)	(8 327)

Notes to the interim financial statements



NOTE 11 LEASING AND COMMITMENTS

Pandion Energy adopted the accounting standard IFRS 16 Leases on 1 January 2019. The Company adopted the modified retrospective approach upon transition, which has resulted in all the transition impact being reported as adjustments to opening balances, and comparative periods have not been restated. The difference between the operating lease commitments after IAS 17, as disclosed in the 2019 financial statements, and lease debt recognised at initial application is reconciled in the table below. Short term leases (less than 12 months) and low value leases have not been included. 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.

	2019
(Amounts in USD`000)	
Operating lease commitments as at 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 as at 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
Remeasurement lease liability	55
Lease payments	(114)
Interest expense	19
Currency adjustments	20
Total lease debt after IFRS 16 31.03.2020	1 233

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

Notes to the interim financial statements



NOTE 11 LEASING AND COMMITMENTS (cont)

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. The lease does not contain any restriction on the company's dividend policy or financing.

Nominal lease debt maturity break down	31.03.2020	31.12.2 019
Within 1 year	656	533
1 to 5 years	636	1 040
After 5 years	-	-
Total	1 292	1 573

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 where Pandion 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.

Commitments partner-licences rigs	31.03.2020	31.12.2 019
Within 1 year	8 721	8 860
1 to 5 years	10 058	10 391
After 5 years	-	-
Total	18 779	19 251

Two exploration wells (PL 263 and PL 891) are decided to be drilled during 2020 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.

Notes to the interim financial statements



NOTE 12 CONTINGENT LIABILITIES AND ASSETS

The Company has future contractual obligations related to development projects in non-operated licenses of approximately USD 2.7 million.

The Company has secondary obligation for removal cost of offshore installations related to 20% share in the divested Duva field. The obligation is limited to approximately USD 5.5 million.

Pandion Energy is further required to participate in the approved work programmes for the licences. Pandion's operations involve risk of damages, including pollution. The Company has insured its pro rata liability on the NCS on a par with other oil companies.

The Company was not subject to any legal disputes at 31 March 2020.

NOTE 13 SUBSEQUENT EVENTS

The Norwegian government on 29 April 2020 announced a decision to reduce the country's total oil production from June to December 2020, in order to contribute to a faster stabilisation of the global oil market. Based on a preliminary assessment of Valhall & Hod fields specific reductions, the company still estimates its full-year production to be within the previously forecast.

The Norwegian government on 30 April 2020 announced a proposal for a package of measures to support the oil and gas industry and the supply industry. The proposal includes temporary amendments to the Norwegian petroleum taxation which are intended to stimulate investments in the sector. The proposed temporary amendments would allow oil and gas companies to deduct investments, including uplift, from the special tax base immediately. Uplift will be reduced from 5.2 % for each of the first four years to 10 % for the first year only. This will apply to investment cost the companies incur in 2020 and 2021, and to investments included in plans for new developments (PDOs/PIOs) that are submitted by the end of 2021 and approved by the end of 2022, and until production starts. These amendments will not apply to investment costs the companies incur after 2024. In addition, the companies will be able to have the tax value of losses in the income years 2020 and 2021 refunded. The government submitted these proposals in the form of a bill to the Norwegian Parliament on 12 May. It is expected that the Parliament will decide on the proposals within mid June.

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 costs



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