– A SHARP EYE FOR NCS OPPORTUNITIES –

ANNUAL REPORT 2020

PANDION ENERGY

Pandion Energy is an independent, full-cycle oil and gas company driving value by maturing resources to reserves in high quality assets on the Norwegian continental shelf.

2020

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Content

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

About Pandion Energy

Professional

Agile

Commercial

Team player

Pandion Energy is an independent, full-cycle oil and gas company, participating in the discovery, appraisal, development and production of oil and gas resources on the Norwegian continental shelf (NCS).

Pandion Energy was established in November 2016 on the basis of the operational platform and licences acquired from Tullow Oil Norge AS.

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

The current portfolio comprises a 10 per cent interest in the Valhall and Hod producing fields, as well as interests in 11 exploration and appraisal licences.

Pandion Energy seeks attractive growth opportunities through mergers and acquisitions, farm-ins and participation in licensing rounds, and devotes continuous attention to the development of the opportunities in its existing portfolio.

The company 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. Pandion Energy 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 more than USD 2 billion of capital commitments from a blue-chip institutional investor base.

In 2020, Pandion Energy was one of the first exploration and production (E&P) companies in Norway to become carbon neutral for Scopes 1 and 2 greenhouse gas (GHG) emissions, and presented a strategy for maintaining its position with a low carbon impact and net zero status.

The strategy rests on four key pillars:

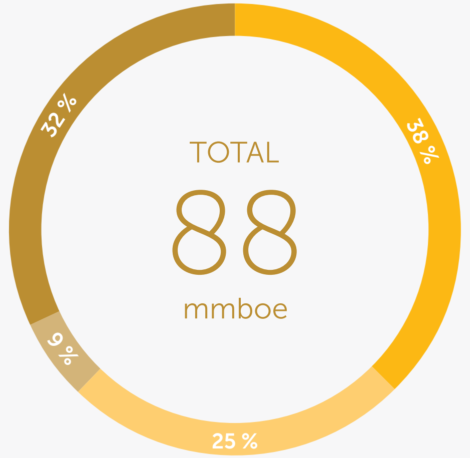
- working with industry to meet the GHG emission targets set by national regulators
- committing to net zero carbon operations by offsetting absolute CO_2 equivalent emissions
- promoting transparency and accountability
- aligning investment criteria to maintain a low carbon footprint in its portfolio.

From the energy used to power our assets down to the investment criteria for prospective opportunities, sustainability is at the core of our business strategy.

Key figures end 2020

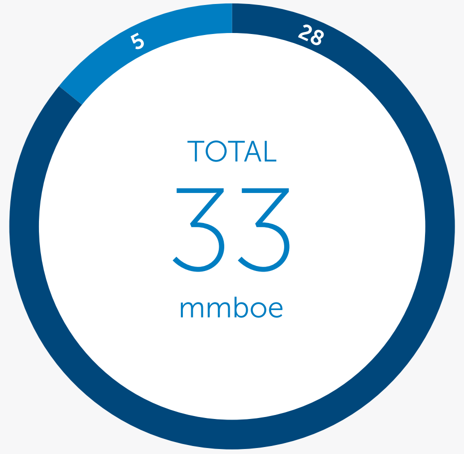
RESERVES & RESOURCES
TOTAL

Valhall & Hod 2P | Iving 2C | Valhall & Hod 2C | Slagugle 2C



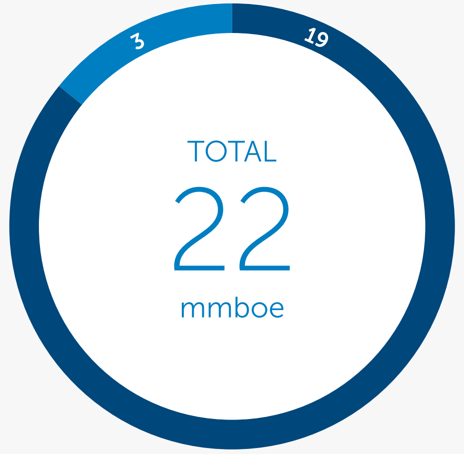
2P RESERVES
VALHALL & HOD

Oil | Gas



2C RESOURCES
VALHALL & HOD

Oil | Gas



RESOURCES
IVING & SLAGUGLE

2C Iving* | 2C Slagugle

KEY FIGURES

	2020	2019
Production in boepd	5,639	4,336
Net sales in boepd	5,313	4,566
Average realised price (USD/boe)	39.4	62.1
(USD' 000)		
Revenues	76,675	103,489
EBITDAX	89,134	90,494
Total assets	566,660	567,478
Total equity	126,294	135,021
Total interest bearing debt	157,595	207,275

** Post completion of 2.5 % interest increase in February 2021*

HISTORY AND MILESTONES

2017

A flying start; becoming a full-cycle oil and gas company

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

NOVEMBER
Duva DG1 (feasibility sanctioned and volumes increased)
>50 % increase in resource estimate

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

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

2018

Securing a robust financial platform

JANUARY
Two new licences awarded in the 2017 APA licencing round

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

APRIL
Company 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
Exploration well in 2019/2020

OCTOBER
NOK 400 million bond loan listed on Nordic ABM

DECEMBER
Acquisition of 30 % in PL 842 in the Norwegian Sea from Aker BP
Exploration well in 2019

2019

Positioning for further growth

JANUARY
Two new licences awarded in the 2018 APA licencing round

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

APRIL
Acquisition of 20 % in PL 263 D & E in the Norwegian Sea from Equinor
Exploration well in 2020

JUNE
Duva PDO approved
Plan for development and operation for the Duva development approved by the Norwegian Ministry of Petroleum and Energy

JULY
Acquisition of 20 % in PL 891 in the Norwegian Sea from ConocoPhillips Exploration well in 2020

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

DECEMBER
First oil at Valhall Flank West

2020

Managing Covid-19 impacts and growing resource base through discoveries

JANUARY
Two new licences awarded in the 2019 APA licencing round

MARCH
Iving discovery: Pandion Energy's first oil and gas discovery on the NCS in PL 820 S in the North Sea

MARCH - MAY
Initial Covid-19 response: Measures initiated to protect employees and operations. Activitites scaled down to manage financial risk. Investment activities resumed in response to the temporary amendments to the Petroleum Tax Act

JUNE
Extension of NOK 400 million Revolving Exploration Finance Facility (EFF)

Hod FID: Plan for development and operation (PDO) for the Hod (re)development submitted

OCTOBER
Swap of 10 % in PL 1047 in exchange for 20 % in PL 938 with ConocoPhillips
Exploration well in 2021/22

NOVEMBER
Small gas discovery in PL 263 D & E in the Norwegian Sea

DECEMBER
Hod PDO approved: Plan for development and operation for the Hod (re)development approved by the Norwegian Ministry of Petroleum and Energy

Slagugle discovery: Significant oil discovery in PL 891 in the Norwegian Sea

Increase of license interest in the Iving discovery
Acquisition of +2.5 % in PL 820 S and 15 % in PL 617 from Wintershall DEA

Letter from our CEO

During the first three months of 2020, the world changed dramatically. The Covid-19 pandemic spread throughout the world, threatening people's health and causing severe consequences for the global economy. The ongoing pandemic affected both operational priorities and financial progress in 2020. During these challenging times, our key priorities have revolved around ensuring the safety and well-being of our employees, protecting operations and, finally, ensuring that Pandion Energy maintains a solid financial platform.

The Covid-19 outbreak in 2020 had dramatic consequences for all of us as individuals and for the global economy, including a massive drop in oil prices and great uncertainty over the duration and magnitude of the pandemic.

My key priorities during these challenging times have revolved around ensuring the safety and well-being of our employees, protecting our operations and, finally, ensuring that we maintain liquidity and remain financially secure.

Safe operations
We closely monitored the Covid-19 situation throughout the year with the objective of protecting staff and operations. As a partner in the Valhall and Hod fields, we stayed in close dialogue with operator Aker BP to ensure that all necessary steps were taken to protect offshore personnel against the pandemic. Extensive measures were implemented to ensure safe and reliable operations.

I would like to extend my thanks to the Pandion Energy team for the way you have taken on these challenging times demon-strating professionalism, dedication and flexibility. I would also like to extend my gratitude to our partners and operators of our assets for their efforts directed at keeping people safe and operations running during these times.

The dramatic oil price drop led to a significant reduction in revenues for our industry, and measures were taken to maintain a robust financial platform. In an initial phase, costs were reduced by scaling down activities and postponing projects.

During the spring of 2020, investment activity was resumed as a direct consequence of the temporary amendments to the Petroleum Tax Act enacted by the Norwegian Storting (parliament). We worked proactively to emphasise the importance of ensuring equal conditions for companies whether they had taxable income or not, which was successfully accomplished by permitting negative tax instalments.

This made it possible for the Hod field redevelopment to become the first project realised under the temporary tax changes.

A plan for development and operation (PDO) of the Hod field, where we hold a 10 per cent equity interest, was submitted in June 2020.

Increasing our resource base with new discoveries
We proudly announced three oil and gas discoveries on the Norwegian continental shelf (NCS) in 2020, demonstrating the potential of our exploration strategy.

Preliminary estimates indicate that the Slagugle discovery was the largest announced on the NCS in 2020. We have a 20 per cent interest in production license 891. This was acquired in July 2019 from operator ConocoPhillips, which holds the remaining 80 per cent.

The two remaining discoveries include an oil and gas discovery in production license 820 S, near the Balder field, known as Iving, and a minor gas discovery in production license 263 D in the Norwegian Sea.

In January 2021, we were happy to announce the award of five licences in the awards in predefined areas (APA) round for 2020. In addition to expanding our exploration portfolio, we have secured strategically important acreage adjacent to our recent discoveries which strengthens our position in areas where we see further potential. In this year's APA round, 30 different oil companies were awarded a total of 61 licences. This demonstrates the industry's confidence in the continued profitability of exploration on the NCS. I have been impressed by the industry's ability to coordinate and execute these applications in a challenging period with many working from home.

Acquisition and divestment of assets
In February 2020, we completed the sale of our 20 per cent non-operated interests in the Duva oil and gas field and associated licences.

Duva was the first discovery in our portfolio after we were established four years ago. We are pleased with the significant value created to date, having participated since the early appraisal phase and through to development.

Our engagement in Duva represents the core of our strategy – to add value to high-quality assets and mature them up the development curve, in this case achieving an increase of more than 50 per cent in recoverable resources since the initial discovery. With this sale, we succeeded in crystallising some of the value created in our portfolio to date, further strengthening our capacity to act on future opportunities.

During 2020, we entered into an agreement with ConocoPhillips to swap a 20 per cent interest in the Calypso prospect (PL 938) in exchange for half of our 20 per cent interest in PL 1047, adjacent to the Martin Linge field.

At the year end, we also entered into an agreement with Wintershall DEA to acquire an additional 2.5 per cent stake in Iving (PL 820 S) and a 15 per cent interest in the Eidsvoll prospect (PL 617) with effect from 1 January 2021. Following this transaction, we hold a 12.5 per cent equity interest in Iving.

With these transactions, we are committing to further exploration drilling – close to existing infrastructure. This reflects our optimistic view of the remaining resource potential in this prolific part of the NCS.

Strategy remains firm, ESG ambitions sharpened
We remain committed to our strategy of being an active, responsible partner and a full-cycle oil and gas company with long-term ambitions.

I am proud to say that, in 2020, we were one of the first E&P companies in Norway to become carbon neutral for Scope 1 and 2 greenhouse gas (GHG) emissions. In early 2021, we also announced our strategy of maintaining a low carbon footprint from our production portfolio and achieving net zero status. We are aligned with the carbon-reduction strategy adopted by the Norwegian government and the net zero carbon strategy of our main shareholder, Kerogen Capital.

Our approach to maintaining a low carbon impact is reflected in our new investment criteria, which specify that we will only pursue exploration and appraisal opportunities in areas with existing or plausible future access to renewable energy sources. In addition, we will incorporate GHG emissions and the potential for future carbon reduction as a new investment criterion for development and production assets and incorporate the cost of carbon when evaluating new investments where renewable energy sources are not available.

A carbon-light strategy has always been an imperative for us, and our ongoing commitment to carbon neutrality – alongside our new investment criteria – represents a further positive step in our ambition to achieve carbon net zero.

We also see that further improvements in sharing environmental data from operators to partners in all licences on the NCS will be an important step towards reducing the industry's climate footprint. We will be working actively towards a common industry standard for sharing and reporting such information.

New insights through digital collaboration
We continuously seek to drive innovation and enhance efficiency in our exploration of oil and gas. In 2020, we participated in an industry-wide initiative to digitalise drill cuttings from some 1,500 to 2,000 wells drilled on the NCS, the Released Well Initiative. However, the vast amount of data is not easily consumed and was challenging to utilise strategically.

Building on the digital competence acquired through our recent digitalisation efforts we initiated a collaboration project developing an application, Cuttings Insights. This application optimises data consumption, presentation, and analytics, providing quick access to the extensive datasets in a user-friendly manner. By applying digital solutions, geological and geophysical data can be utilised more efficiently, aiding data driven decisions and making it easier to discover new opportunities in mature areas on the NCS.

Outlook
Our priorities will continue to revolve around ensuring the safety and wellbeing of our employees, protecting our operations, and securing a solid financial position until the Covid-19 situation has normalised.

Operationally, our strongest priority is to deliver production and continue developing the Valhall and Hod fields, progress the appraisal of the recent discoveries, alongside maturing related upside potential and further developing our exploration portfolio.

We will remain an active and responsible partner in driving value in high-quality assets on the NCS. As part of this, we are actively searching for and evaluating opportunities to make value-accretive acquisitions and grow our portfolio further.

Jan Christian Ellefsen,
CEO

Pandion Energy
Annual Report 2020

Asset overview

PL 006 B, 033 B, 033
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 Valhall Flank West: 2019
Area	231.5 km²

PL 820 S/SB*
Iving Discovery

Location	North Sea
Block(s)	25/7, 25/8
Pandion Energy interest**	12.5%
Operator	MOL Norge AS (40%)
Other partners	Lundin Norway AS (41%) Wintershall Dea Norge AS (6.5%)
Awarded	06.02.2015
Area	58.1 km²

* Extension awarded in 2021
** Post completion of 2.5% increase in Feb. 2021

PL 263 D/E/F*
Appolonia Discovery

Location	Norwegian Sea
Block(s)	6407/1, 6507/10
Pandion Energy Interest	20%
Operator	Equinor Energy AS (51%)
Other partners	Lime Petroleum AS (20%) ONE-Dyas Norge AS (9%)
Awarded	02.03.2018 (D), 01.11. 2019 (E), 19.02.2021 (F)
Area	105.1 km²

* Extension awarded in 2021

PL 891/B*
Slagugle Discovery

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, 19.02.2021 (B)
Area	224.9 km²

* Extension awarded in 2021

PL 617*

Location	North Sea
Block(s)	2/9
Pandion Energy Interest	15%
Operator	MOL Norge AS (40%)
Other Partners	OMV (Norge) AS (30%) Wintershall Dea Norge AS (15%)
Awarded	03.02.2012
Area	111.7 km²

* Post transaction completion in February 2021

PL 938

Location	Norwegian Sea
Block(s)	6407/8
Pandion Energy Interest	20%
Operator	Neptune Energy AS (30%)
Other Partners	OKEA ASA (30%) Vår Energi AS (20%)
Awarded	02.03.2018
Area	56.7 km²

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 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 1047

Location	North Sea
Block(s)	30/4, 30/5, 30/7, 30/8
Pandion Energy interest	10%
Operator	Aker BP ASA (40%)
Other partners	ConocoPhillips Skandinavia AS (30%) Concedo AS (20%)
Awarded	14.02.2020
Area	202.4 km²

PL 1108*

Location	North Sea
Block(s)	35/9
Pandion Energy Interest	30%
Operator	DNO Norge AS (40%)
Other Partners	OKEA ASA (30%)
Awarded	19.02.2021
Area	223.4 km2

* Awarded in 2021

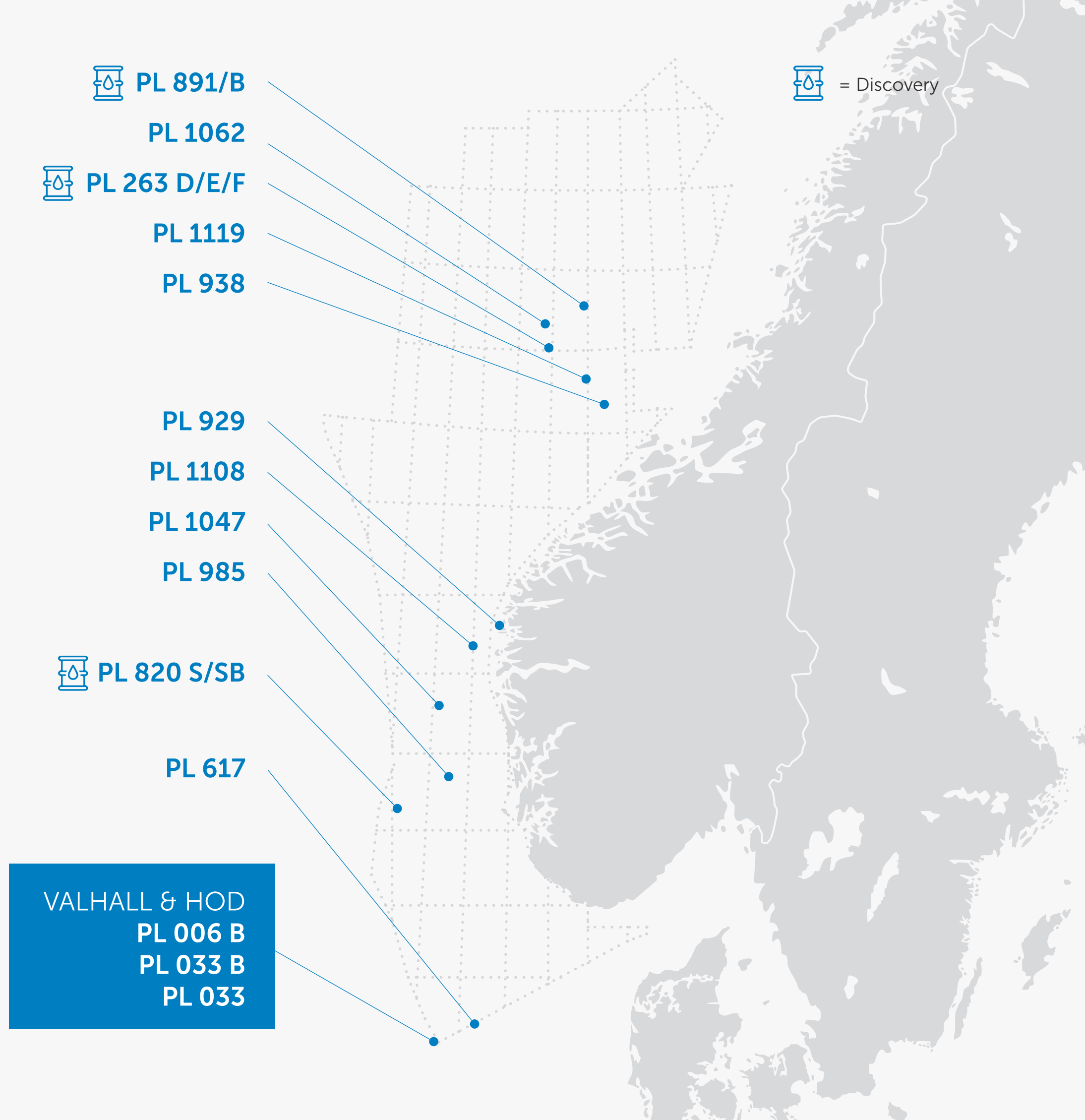
PL 1062

Location	Norwegian Sea
Block(s)	6507/11
Pandion Energy interest	30%
Operator	Neptune Energy Norge AS (40%)
Other partners	Lime Petroleum AS (30%)
Awarded	14.02.2020
Area	140.9 km²

PL 1119*

Location	Norwegian Sea
Block(s)	6406/2, 6406/3, 6406/5, 6406/6
Pandion Energy Interest	20%
Operator	OKEA (40%)
Other Partners	Equinor Energy AS (40%)
Awarded	19.02.2021
Area	196.4 km2

* Awarded in 2021



VALHALL & HOD FIELDS
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,
Valhall Flank West 2019

Production 2020 (net)
5.639 boepd

End 2020 2P reserves (net)
33 mmboe

End 2020 2C resources (net)
22 mmboe

Valhall & Hod fields

The gigantic Valhall area is one of the largest oil producers in the Norwegian North Sea. Since coming on stream in 1982, over a billion barrels of oil equivalent, more than three times the recovery initially estimated, has been produced from this area. Although Valhall and Hod have been in production for several decades, an enormous potential remains to be tapped.

Valhall Flank West was brought on stream at the end of 2019 and a new Hod redevelopment is under way, bringing the partners in Valhall and Hod one step closer to achieving their ambition of recovering another billion barrels from these fields over the next 40 years.

Valhall and Hod are located in the southern part of the Norwegian sector in the North Sea.

The Valhall field centre currently consists of five separate steel platforms for accommodation and processing (PH), drilling (DP), processing and compression (PCP), wellhead (WP) and water injection (IP). Three normally unmanned and remotely operated flank platforms (North, South and West) are located a few kilometres from the field centre.

The Hod field is located 13 kilometres south of Valhall. When it came on stream in 1990, the original Hod wellhead installation was the first unmanned platform in the Norwegian North Sea. All the wells on Hod are currently shut in, and this reservoir is being produced by wells drilled from the Valhall South Flank platform.

CO_2 emissions intensity amongst the lowest in the E&P industry

As part of environmental measures to reduce environmental risk and emissions to the air (CO_2 and NOx), Valhall has been powered from shore since 2012 through a 294-kilometre cable from Lista on the coast of Norway. Initially, this eliminated annual turbine emissions of approximately 320,000 tonnes of CO_2 and 600 tonnes of NOx. The Valhall field centre can also supply long-term rig hires with electricity. In 2017, the Maersk Invincible jack-up became the first mobile drilling rig in the world to operate on power from shore. The CO_2 emissions intensity from the Valhall and Hod fields in 2020 was 1.1 kilograms CO_2 per barrel of oil equivalent (boe).

Performance in 2020

Gross production from Valhall and Hod averaged 56,400 barrels of oil equivalent per day (boepd) in 2020, up from an average of 43,400 boepd in 2019. This increase was driven by the ramp-up of production from new wells. Production efficiency averaged 86 per cent in 2020, compared with 82 per cent in 2019.

Covid-19 response

Activity began in 2020 at a high level, with two simultaneous drilling operations and the ramp-up of new wells on Valhall Flank West. However, operations were scaled down and projects postponed early in the year as a response to the Covid-19 outbreak. The handling of the Covid-19 threat to operations by the operator and the alliance partners, combined with the temporary petroleum tax rules introduced in June 2020, were important enablers for resuming investment activity and progressing further development of the Valhall and Hod area.

Hod field development

In December 2020, the Norwegian Ministry of Petroleum and Energy approved the plan for development and operation (PDO) for Hod. The field will be developed with Hod B, a new normally unmanned installation (NUI) to be remotely operated from the Valhall field centre. This facility will run on power from shore, yielding very low CO_2 emissions during normal operation.

Hod is among the first projects to be realised under the temporary changes to the Norwegian Petroleum Tax Act. The field is expected to generate more than NOK 6 billion of tax revenues during its service life. Including spin-offs, the project is estimated to create around 5,000 full-time equivalent years of employment during the execution phase. Seventy-five per cent of the contract value for construction of the Hod B platform and the subsea installations has gone to Norwegian supplier companies.

Production is scheduled to start in the first quarter of 2022. Recoverable reserves in Hod are estimated to be around 40 million barrels of oil equivalent. In conjunction with the approval of the PDO, the Hod licence (PL 033) was granted an extension to 2035.

Outlook and future ambitions

In January 2020, the partnership sanctioned a programme of decommissioning and removing the original Valhall and Hod platforms. This will run from 2021 to 2027. Removing old platforms and plugging old wells, making room for new business opportunities and investing in new wells are part of the modernisation path preparing Valhall and Hod for the future ambition of producing an additional one billion barrels of oil equivalent over the next 40 years.

The progress of Hod redevelopment during 2020, the subsequent drilling of two new infill wells to be drilled in 2021, and the start-up of a new early-phase field development project – the New Central Platform – to replace the current wellhead installation are key enablers for unlocking the future potential of the Valhall and Hod fields.

Exploration wells

Three exploration wells were completed in 2020. All three yielded oil and gas discoveries, with net resources for Pandion Energy estimated to be 17-49 million barrels of oil (mmboe).

Strategically important acreage adjacent to discoveries has been secured through the 2020 Norwegian awards in predefined areas (APA) licensing round, further strengthening access to additional upside potential in these areas.

PL 820 S Iving
In March 2020, the company announced oil and gas discoveries near the Balder field in the dual-target Evra and Iving prospects in PL 820 S located in the North Sea. The well included two sidetracks to allow for extensive data acquisition, including coring, logging and oil sampling. Hydrocarbons were proven at five different intervals. The well was production tested in the Skagerrak formation. Permanent pressure gauges were installed in the well to assist in determining areal reservoir connectivity from further appraisal. Based on a preliminary evaluation the Iving recoverable gross resources are estimated to 12-71 mmboe in the Skagerrak Formation (with light oil accounting for about 85 per cent).

Recoverable volumes associated with the Evra discovery in the Eocene/Paleocene injectite reservoir sands, in oil in weathered/fractured basement and other oil and gas carrying layers will be considered during the appraisal phase of the license. The discoveries are being evaluated for further appraisal drilling during 2021 with the aim of developing the discovery as a tie-back to existing infrastructure nearby. Follow-up prospectivity exists in the licence and will be evaluated in light of this discovery.

In December 2020, Pandion Energy entered into an agreement with Wintershall DEA to acquire a 2.5 per cent stake in the Iving discovery in PL 820 S with effect from 1 January 2021. Following the transaction, the company holds a 12.5 per cent equity interest in the Iving discovery.

In January 2021, Pandion Energy was also awarded adjacent acreage in PL 820 SB through the Norwegian awards in predefined areas (APA) licensing round.

PL 263 D/E Appolonia
A minor gas discovery was announced November 2020 in the Apollonia prospect in PL 263 D/E in the Norwegian Sea. Preliminary estimates indicate that the gross size of the discovery is 3-10 mmboe. The partnership will assess this discovery in conjunction with other discoveries and prospects nearby.

In January 2021, Pandion Energy was awarded adjacent acreage in PL 263 F through the Norwegian awards in predefined areas (APA) licensing round.

PL 891 Slagugle
In December 2020, a significant oil discovery was announced in the Slagugle prospect in PL 891, about 23 kilometres north of the Heidrun field in the Halten Bank area of the central Norwegian Sea. Preliminary estimates put its gross size at 75-200 mmboe, making it the largest discovery on the NCS in 2020. The well encountered a total oil column of 270 metre in the Åre Formation and Grey Beds. Sandstone layers of 90 meters were encountered within the oil column with generally very good reservoir properties.

The licensees are in the process of assessing the discovery together with nearby prospects to determine future appraisal and potential development solutions.

In January 2021, Pandion Energy was awarded adjacent acreage in PL 891 B through the Norwegian awards in predefined areas (APA) licensing round.

The Slagugle discovery is a prime example of Pandion Energy's exploration strategy targeting opportunities close to existing infrastructure with focus on prospects with material upsides.

2020 Exploration well programme

Licence	Location	Operator	WI	Well	Spud Date	Result
PL 820 S*	North Sea	MOL Norge AS	12.5 %	Evra/Iving	November 2019	Two oil & gas discoveries
PL 263 D	Norwegian Sea	Equinor Energy AS	20 %	Appolonia	September 2020	Minor gas discovery
PL 891	Norwegian Sea	ConocoPhillips Scandinavia AS	20 %	Slagugle	November 2020	Oil discovery

* Pandion Energy's working interest in production license 820 S post completion in January 2021.

Environmental, Social & Corporate Governance

Pandion Energy believes that its ability to create long-term, lasting value rests on maintaining high standards of governance, safe operations, and sustainable business practices. Sustainable corporate governance practices include sound ethical business practices, reliable financial reporting and strong core values. During 2020, Pandion Energy incorporated climate risk into its investment criteria with the objective of creating value on the basis of being a carbon neutral producer, and became one of the first exploration and production (E&P) companies on the Norwegian continental shelf (NCS) to achieve carbon neutrality for Scopes 1 and 2 CO_2 emissions.

We believe that our ability to create long-term, lasting value rests on maintaining high standards of governance, sustainable business practices and operations

Corporate governance
The board believes that good governance is rooted in compliance with regulations and legislation and in ensuring a culture of integrity, accountability, and transparency. A detailed model of governance, risk management and control has been developed and implemented in Pandion Energy through the company's management system. This incorporates activities at shareholder and market level as well as by the board and management.

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 competent owners. Its core values of professional, agile, commercial and a team player are an integral 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 by everyone working on behalf of the company, including employees, consultants and directors. The company also expects its business partners and suppliers to behave in ways which are consistent with the principles in this code.

The code of conduct covers the following areas: health, safety and environmental (HSE) policy and commitment, equality and anti-harassment, working conditions – including modern slavery and child labour – anti-corruption, confidentiality, conflicts of interests, business practices towards suppliers and partners, and guidelines on gifts, hospitality and expenses. Pandion Energy has zero tolerance of bribery and corruption, and works with its partners and contractors on the basis of the same principles.

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 whistleblowing.

HSE management
HSE management is critical in the oil and gas industry, where operations can affect the environment, communities, and the workforce. Considerations related to HSE are therefore of strategic importance for Pandion Energy. The company integrates technical, economic and HSE considerations into its decision-making and operational processes to reduce risk and achieve long-term sustainability in its business. Pandion Energy has a non-operator strategy, and therefore places great emphasis on ensuring that operations which it takes part in are safe for the people involved and aim to minimise their 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 in the company's culture and operating procedures.

Sustainability

Climate change and the environment
Pandion Energy recognises that climate change is of critical importance to the future of the planet, and supports the goal of the Paris agreement to achieve a carbon-neutral global economy. The company is aligned with the carbon-reduction strategy adopted by the Norwegian government and the net zero strategy of Kerogen Capital, its main shareholder.

Since its inception, Pandion Energy has been committed to maintaining a low carbon footprint. Its carbon intensity is amongst the lowest in the exploration and production (E&P) industry both globally and on the NCS, ranging from 1.2 to 3.4 kilograms of CO_2 equivalent per barrel of oil equivalent annually. From the energy used to power the company's assets down to the investment criteria applied to prospective opportunities, a concentration on sustainability is at the core of Pandion Energy's business strategy.

Despite its relative size and non-operator status, the company works closely with the operators of its assets to ensure that it continually embraces the newest technologies and solutions to minimise its environmental impact.

Carbon-light strategy
Pandion Energy's carbon-light strategy rests on four key pillars:

- working with industry to meet the greenhouse gas (GHG) emission targets set by the national regulators
- committing to net zero-carbon operations by offsetting absolute CO_2 equivalent emissions
- promoting transparency and accountability
- aligning investment criteria to maintain a low carbon footprint.

Pandion Energy's commitments
Carbon neutrality
In 2020, Pandion Energy was one of the first E&P companies on the NCS to become carbon neutral for Scopes 1 and 2 emissions. Pandion Energy sees the use of offsets as part of an overall plan to reduce the carbon impact of its operations with the target of reducing the remaining balance of absolute Scopes 1 and 2 emissions over time. To ensure the environmental integrity of offsets, the company will be giving emphasis to carbon removal offsets which accord with the Oxford principles for net zero aligned carbon offsetting.

Emission reduction
Pandion Energy remains committed to ongoing emission-reduction measures across the portfolio, despite its carbon intensity being amongst the lowest in its industry.

As a non-operator, the company will contribute to reaching national carbon-reduction targets by cooperating with operators on asset-specific carbon-reduction strategies based on the emission profile and properties of the individual assets. It will seek to explore new technologies and evaluate repurposing offshore infrastructure as measures for further reducing GHG emissions from its operations.

Investment strategy
Pandion Energy has committed to maintaining a carbon-light strategy and has aligned its investment criteria with the ambition to maintain a low carbon footprint.

This includes:

- pursuing exploration and appraisal opportunities only in areas with existing or plausible future access to renewable energy sources
- incorporating GHG emissions and the potential for future carbon reduction as a new investment criterion for development and production assets
- incorporating the cost of carbon in evaluating new investments where renewable energy sources are not available

Transparency
The company is committed to providing full transparency on its emission-reduction efforts and will work collaboratively with industry peers and partners to share lessons learned and improve the collective ability of the industry to minimise the environmental footprint and be aligned with a carbon neutral world.

Pandion Energy supports the task force on climate-related financial disclosures (TCFD) and aims to align disclosures with the recommendations presented by the TCFD from 2021.

Spotlight on digitalisation

Since 2018, Pandion Energy has made significant investments in enhancing its exploration work streams and capabilities by developing new digital tools and facilitating new ways of working. Starting off with some basic ideas and concepts, this work has now resulted in two live solutions in daily use by Pandion Energy's geology and geophysics (G&G) team. These are KAI, Pandion Energy's proprietary digital platform for well data and advanced analytics, and Wellify (Cuttings Insight), a web-based tool for visualisation of cuttings photos and mineral data sets.

"2020 has definitely been an inflexion point for our digital initiatives – not to mention our digital mindset and competence. With two easy-to-use solutions in place, the time and money invested in digitalisation is paying off. You could say we have gone from digital frustration to digital fascination in no time", says Helge L. Nordtorp, Deputy CEO & VP Business Development.

KAI was Pandion Energy's first digital initiative and has now become a semi-automated digital platform which sources, cleanses and makes NCS and UK cross-border well data readily available for further analytics for our geoscientists. Having found its place as part of the G&G team's toolbox, next steps will focus on developing additional applications with new data sets, new functionalities, and new advanced analytics solutions.

"With G&G and IT domain experts working alongside, KAI has become a very valuable tool which we use and, most importantly, trust. It's not yet a smart platform in the sense of ML and AI which everyone seems to be talking about, but the amount of smartness incorporated into it is impressive", says Richard Olstad, Chief Geologist.

The other solution coming out of Pandion Energy's digitalisation efforts is the non-commercial Cuttings Insight collaboration project together with DNO and Spirit Energy. This project was formed to provide geoscientists easy access to the complex data landscape coming from Norwegian Oil and Gas Association's Released Well Initiative (RWI) digitalisation project with high-resolution photos (Wh/UV) and mineral data from ca. 1600 wellbores on the NCS. The first result from this project, the Wellify visualisation tool, has now been launched with about 40 unique users between the three project partners.

"Wellify has become a very handy and powerful assistant to the geoscientists as they have started digging into the extensive and underutilised cuttings data set. Just based on the initial feedback from our own staff and our partners' we see that this tool makes the cuttings data easy to find, study and play around with. Pure G&G joy, as some of my colleagues say", says Bente Flakstad Vold, VP Exploration & Appraisal.

> 2020 has definitely been an inflexion point for our digital initiatives – not to mention our digital mindset and competence. With two easy-to-use solutions in place, the time and money invested in digitalisation is paying off.
>
> *Helge L. Nordtorp,*
> *Deputy CEO & VP Business Development*

OUR TEAM

Our team

Pandion Energy devotes great attention to maximising value from high-quality assets and to targeting upsides in and around proven assets. It has a team of highly experienced professionals to support successful growth. The company's core values of professional, agile, commercial and a team player are an integral part of its culture.

At 31 December 2020, Pandion Energy had 26 employees. In addition, six consultants worked for the company on various assignments.

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

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

Both management and employees are committed to Pandion Energy as shareholders through significant investments in the company.

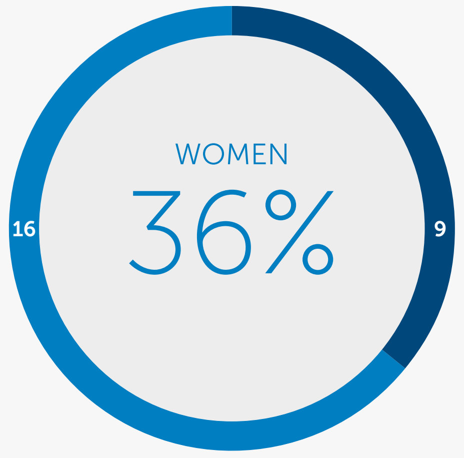
The outbreak of Covid-19 has affected people's daily lives and ways of working. The daily operations of Pandion Energy have predominantly been managed from home during the Covid-19 outbreak and all business travel has naturally been replaced by digital meetings.

Pandion Energy acknowledges that this has been a challenging situation in many aspects for the team, and the company is proud of the way employees and contractors have handled the situation professionally and with great care for one another. The organisation has gained valuable competence during these special times which it will benefit from also going forward.

Team key figures

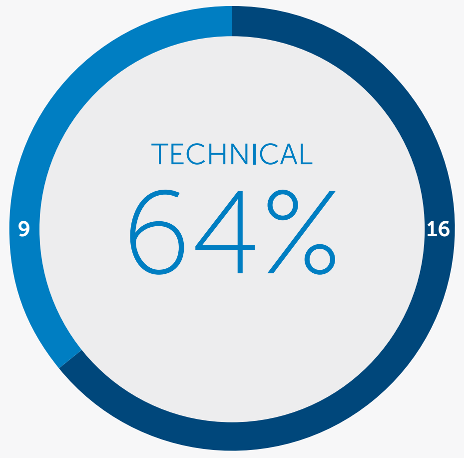
GENDER

Female
Male



BUSINESS/TECHNICAL STAFF

Technical
Business



EXPERIENCE

5-10 years
10-19 years
20-29 years
30+ years

Figures as of 31.03.2021

The management team

Jan Christian Ellefsen
CEO
MSc Mechanical Offshore Engineering

Jan Christian Ellefsen leads the Pandion Energy team with more than 30 years of managerial, commercial and technical experience with the oil and gas industry. He has held a broad range of managerial positions in both oil service and exploration and production companies.

Helge L. Nordtorp
Deputy CEO & VP Business Development
MSc Economics

Helge L Nordtorp has more than 20 years of experience with the exploration and production industry from managing regulatory processes as a civil servant in the Ministry of Petroleum and Energy, and from strategy and business development projects as a management consultant. He also has vast experience with mergers and acquisitions and capital market transactions.

Hege Peters
VP Finance & Business Support
MSc Accounting and Auditing

Hege Peters has more than 25 years of diversified experience with managing finance functions, accounting, budgeting, liquidity, tax and compliance processes, in both exploration and production and other industries. She initially qualified as a senior auditor at Arthur Andersen.

Bente Flakstad Vold
VP Exploration & Appraisal
MSc Applied Geophysics

Bente Flakstad Vold has more than 20 years of managerial and technical experience from the oil and gas industry on the NCS. Her extensive background covers all aspects of subsurface portfolio management, including prospect generation and maturation as well as exploration and appraisal drilling. She has also played a leading role in implementing new digital solutions developed for and applied to the geological and geophysical workflows in Pandion Energy.

Kjetil Steen
VP Development & Production
MSc Mechanical Engineering

Kjetil Steen has more than 25 years of experience with development and production on the Norwegian continental shelf and internationally. His expertise lies in taking discoveries to final investment decision, with a concentration on technical feasibility, concept selection and engineering design through to execution.

Oksana Karpenko Hillervik
VP HSE & Operations
MSc Industrial Economics & Technical Management

Oksana Karpenko Hillervik has held various advisory and managerial positions in health, safety, the environment and quality for the oil and gas industry on the NCS since 2007. She has broad experience with risk and HSE management, emergency preparedness, compliance and regulatory processes, as well as with planning and execution of operational activities on the NCS.

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The board of directors

Alan Parsley
Chairman

Dr Alan Parsley is an advisory board member and chair of the technical committee at Kerogen. He has more than 40 years of industry experience, predominantly at Shell, where he held senior positions including global head of exploration, head of new business ventures, and chair of Shell Australia. He formerly served as a member of the board at Woodside Petroleum Ltd.

Jan Christian Ellefsen
CEO/Executive director

Jan Christian Ellefsen leads the Pandion Energy team with more than 30 years of managerial, commercial and technical experience from the oil and gas industry. His background includes a broad range of managerial positions in both oil services and exploration and production companies, mainly in development and operations.

Helge L. Nordtorp
Deputy CEO and VP BD / Executive director

Helge Nordtorp has more than 20 years of experience in the exploration and production industry from managing regulatory processes as a civil servant at the Ministry of Petroleum and Energy, and from strategy and business development projects as a management consultant. He also has experience with M&A and capital market transactions as a director at DNB Markets, a leading Norwegian investment bank.

Tushar Kumar
Non-executive director

Tushar Kumar is a partner and a senior member of the Investment and portfolio management team at Kerogen. He has over 18 years' experience in investments and corporate finance in the energy industry. He was formerly Executive Director at Morgan Stanley's Natural Resources Investment Banking group in London, and had previously worked with Kerogen team members at J.P. Morgan in Hong Kong.

Jason Cheng
Non-executive director

Jason Cheng is the CEO and Managing Partner of Kerogen, he co-founded Kerogen and its predecessor Ancora Capital in 2007. He has around 30 years' commercial experience across investing, operations and investment banking. He was formerly Managing Director of Jade International Capital Partners Limited in Beijing, and had previously worked in energy investment banking at J.P. Morgan and Schroders.

Roberta Wong
Non-executive director

Roberta Wong is a director on the Investment and portfolio management team at Kerogen. Before joining 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.

DIRECTORS' REPORT

Directors' report 2020

The ongoing Covid-19 pandemic affected both operational priorities and financial progress in 2020. During these challenging times, the board's priorities have revolved around ensuring the safety and wellbeing of employees, protecting operations and, finally, ensuring that Pandion Energy maintains a solid financial platform. The company also formalised its net zero carbon strategy during 2020 and was one of the first E&P companies on the Norwegian continental shelf (NCS) to become carbon neutral for Scope 1 and Scope 2 emissions.

HIGHLIGHTS 2020

- Operational priorities shifted to address Covid-19 impacts
- The subsequent oil price fall led to a significant reduction in revenues for the company, and activities were scaled back in an initial phase to secure a financial platform which remained robust
- The Hod development project, where Pandion Energy holds a 10 per cent equity interest, was sanctioned in June, enabled by the temporary amendments to the Petroleum Tax Act by the Norwegian Storting (parliament). The plan for development and operation (PDO) of the Hod field was approved by the Ministry of Petroleum and Energy (MPE) in December
- Exploration activities were maintained as planned during the Covid-19 response
- Three oil and gas discoveries were made in the prolific areas of the Norwegian North and the Norwegian Sea, two of which have commercial potential; the Slagugle discovery in production license (PL) 891, the largest discovery announced on the NCS in 2020; the Iving oil and gas discovery in PL 820 S, near the Balder field; and a minor gas discovery in PL 263 D/E
- Strategically important acreage adjacent to discoveries has been secured through the Norwegian awards in predefined areas (APA) licensing round, further strengthening access to additional upside potential in these areas

ABOUT PANDION ENERGY AS

Business and location

Pandion Energy AS (Pandion Energy or the company) is a Norwegian company with its head office at Lysaker, Oslo. It was established in November 2016 on the basis of the operational platform and six licences acquired from Tullow Oil Norge AS.

The company is owned by Pandion Energy Holding AS, a holding company owned by the management team and Kerogen Capital, an independent private equity fund manager specialising in the international energy sector.

At 31 December, the company had an asset portfolio comprising a 10 per cent interest in the producing Valhall and Hod fields (PLs 006B, 033B and 033), as well as interests in nine exploration licences, including acquisition of PL 617, completed in February 2021. In January 2021, the company was awarded two new exploration licences and three extension licences in the 2020 APA round. Following the awards and acquisition of PL 617, the company holds a total of 14 licences.

The portfolio includes some 33 million barrels of oil equivalent (mmboe) of net proven and probable (2P) reserves and 55 mmboe of net contingent resources (2C), including the best estimates for the 2020 discoveries in PL 820 S Iving and PL 891 Slagugle.

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 NCS. Its strategy is to be an active and responsible non-operator partner across all the assets in its portfolio.

The company targets upsides in and around proven assets with access to processing and transport capacity. Pandion Energy has an ambitious growth strategy, supported by a solid capital structure. It will pursue attractive growth opportunities, including exploration and appraisal, further development of the producing Valhall and Hod fields, mergers and acquisitions, farm-ins, and participation in future licensing rounds.

In 2020, Pandion Energy became carbon neutral by offsetting its net Scope 1 and 2 greenhouse (GHG) emissions from production and exploration drilling activities, approx. 7,300 tonnes CO_2 equivalents from 2019. Early 2021, the company announced the strategy for maintaining its position with a low carbon impact and net zero status. The strategy rests on four key pillars:

- working with industry to meet the GHG emission targets set by the national regulators
- committing to net zero carbon operations by offsetting absolute CO_2 equivalent (CO_2e) emissions
- promoting transparency and accountability
- aligning investment criteria to maintain a low carbon footprint in its portfolio.

STRATEGIC ACHIEVEMENTS IN 2020

Valhall and Hod

The dramatic oil price drop led to a significant reduction in revenues for the company, and measures were taken to maintain a robust financial platform. In an initial phase, costs were reduced by scaling down activities and postponing projects.

During the spring of 2020, investment activity was resumed as a direct consequence of the temporary amendments to the Petroleum Tax Act enacted by the Norwegian Storting. Pandion Energy worked proactively to emphasise the importance of securing equal terms for companies whether they had taxable income or not, which was successfully accomplished by permitting negative tax instalments. This made it possible for the Hod field redevelopment to become the first project realised under the temporary changes to the Petroleum Tax Act.

A PDO for Hod, where Pandion Energy holds a 10 per cent equity interest, was submitted in June 2020. The Hod project is progressing as planned at the Aker Solutions yard in Verdal. A milestone was reached on 8 December, when the MPE approved the PDO. Production is scheduled to start in the first quarter of 2022, and gross recoverable reserves (2P) are estimated at around 40 mmboe. In conjunction with approval of the PDO, the Hod licence (PL 033) was granted an extension to 2035.

Oil and gas discoveries

Three exploration wells were completed in 2020. All three yielded oil and gas discoveries, with net resources for Pandion Energy estimated to be 17-49 million barrels of oil (mmboe).

In March, the company announced oil and gas discoveries near the Balder field in the dual-target Evra and Iving prospects in PL 820 S located in the North Sea. The well included two sidetracks to allow for extensive data acquisition, including coring, logging and oil sampling. Hydrocarbons were proven at five different intervals. The well was production tested in the Skagerrak formation. Permanent pressure gauges were installed in the well to assist in determining areal reservoir connectivity from further appraisal. Based on a preliminary evaluation the Iving recoverable gross resources are estimated to 12-71 mmboe in the Skagerrak Formation (with light oil accounting for about 85 per cent). 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 will be considered during the appraisal phase of the license. The discoveries are being evaluated for further appraisal drilling during 2021 with the aim of developing the discovery as a tie-back to existing infrastructure nearby. Follow-up prospectivity exists in the licence and will be evaluated in light of this discovery.

A minor gas discovery was announced during November in the Apollonia prospect in PL 263 D/E in the Norwegian Sea. Preliminary estimates indicate that the gross size of the discovery is 3-10 mmboe. The partnership will assess this discovery in conjunction with other discoveries and prospects nearby.

In December 2020, a significant oil discovery was announced in the Slagugle prospect in PL 891, about 23 kilometres north of the Heidrun field in the Halten Bank area of the central Norwegian Sea. Preliminary estimates put its gross size at 75-200 mmboe, making it the largest discovery on the NCS in 2020. The licensees are in the process of assessing the discovery together with nearby prospects to determine future appraisal and potential development solutions.

New exploration licences

In January, Pandion Energy was awarded holdings in two new prospective exploration licences under the 2019 APA round on the NCS. The company was offered a 20 per cent participating interest in PL 1047. This licence is located in the central part of the Viking Graben in the North Sea, between the Martin Linge and Oseberg fields. It was also offered a 30 per cent participating interest in PL 1062 on the Halten Terrace south-east of Heidrun in the Norwegian Sea.

Pandion Energy entered into an agreement during October to swap a 10 per cent interest in the newly awarded PL 1047 with ConocoPhillips in exchange for a 20 per cent interest in PL 938 containing the Calypso prospect. With this transaction, the company committed to a new exploration well in an area with existing infrastructure, reflecting its optimistic view of the remaining resource potential in this prolific part of the NCS.

In December, Pandion Energy entered into an agreement with Wintershall DEA to acquire a 15 per cent interest in PL 617, containing the Eidsvoll prospect, and a 2.5 per cent stake in the Iving discovery in PL 820 S with effect from 1 January 2021. Following the transaction, the company holds a 12.5 per cent equity interest in the Iving discovery.

FINANCIAL REVIEW

The going concern assumption

Pursuant to section 3-3a of the Norwegian Accounting Act, the board has performed a robust assessment of the company's cash flows and its financial and liquidity positions, including in a number of downside scenarios, and confirms that the conditions for continued operation as a going concern are present and that the annual accounts have been prepared on that basis. The board confirms that the annual accounts represent a true and fair view of the company's financial position and that it is not aware of any factors which would materially affect the assessment of the company at 31 December 2020.

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

Statement of income

Revenue and other income

Total revenues and other income for 2020 amounted to USD 116.6 million (2019: USD 125.1 million) and comprised net sales of oil and gas, gains from the sale of interests in licences and gain/loss from hedging positions.

The reduction in revenue mainly reflected lower commodity prices, offset to some extent by an increase in sold volumes during the financial year. Net sales of oil and gas for the year amounted to USD 76.7 million (USD 103.5 million).

The average price achieved by Pandion Energy in 2020 for its net sales of oil and gas before hedging was USD 39.4 (USD 62.1) per boe, which was consistent with Brent benchmark movements.

Average net production for Pandion Energy was 5,639 boe per day (boepd), compared with an average of 4,334 boepd in 2019, driven by new Valhall infill wells and Valhall Flank West coming on stream during the year. Average net sales for Pandion Energy amounted to 5,313 boepd (4,566 boepd). Sales quantities in a period can differ from production quantities, mainly as a result of differences in the timing of cargo liftings compared with production (inventory movements).

Other income for the year amounted to USD 4.6 million (loss of USD 8.3 million), which related to the lower oil price in 2020 being partly offset by realised gains from hedging positions.

Non-recurring revenues related to after-tax accounting gains from the sale of Pandion Energy's interests in the Duva oil and gas field amounted to USD 35.3 million in 2020, compared with USD 29.9 million in 2019.

In 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 completed in 2019 while the remaining 10 per cent share, divested to PGNiG Upstream Norway AS, was completed in 2020.

Expenses

Operating expenses including inventory movements amounted to USD 27.4 million for 2020, significantly below the 2019 level of USD 34.6 million. The reduction is mainly attributable to inventory movements and a lower level of activity (reduced maintenance) following the Covid-19 restrictions. The change in inventory is valued at production costs including tariffs and depreciation costs, and amounted to a negative USD 2.9 million (positive at USD 2.1 million) over the year owing to timing differences between cargo liftings and production.

The per-barrel cost of operations for the year amounted to USD 10 (USD 15), with the reduction from 2019 caused mainly by increased production from the Valhall and Hod oil fields.

Exploration expenses in the income statement for 2020 amounted to USD 20.9 million (USD 24.1 million). Exploration and appraisal costs are capitalised as incurred. When exploration and appraisal drilling is unsuccessful or licences are relinquished owing to lack of prospectivity, the capitalised costs are expensed. In addition to previously capitalised exploration costs, exploration expenses in the income statement comprised costs related to new venture activities (licensing rounds, farm-in activities and digitalisation) and are detailed in Note 7.

The company recorded net financial expenses of USD 16.2 million for 2020, compared with USD 18.8 million for 2019, and are detailed in Note 11. The reduction from the comparative period related mainly to gains from derivative financial instruments entered into in 2020 to address exposure to exchange rate fluctuations between USD and NOK, which amounted to USD 2.5 million in 2020. No such instruments were entered into during 2019.

Net financial expenses mainly comprised interest expenses of USD 11.1 (USD 12 million), which related to the company's unsecured bond, the reserve-based lending (RBL) facility and the exploration finance facility (EFF), as well as accretion expenses of USD 6.2 million (USD 6 million) related to asset retirement obligations.

Results

The company generated a loss on operating activities of USD 22.7 million and an EBITDAX* of USD 89.8 million in 2020, down from the 2019 figures of USD 44.5 million and USD 90.5 million respectively. The decrease from the comparative period mainly reflected lower oil prices as well as impairment charges during the year. An impairment of technical goodwill amounting to USD 61.6 million has been charged in 2020.

Pandion Energy recorded a loss before income tax of USD 38.8 million for 2020, compared with a profit before income tax of USD 25.7 million the year before. An income tax benefit of USD 29.4 million was recorded for 2020, compared with an income of USD 0.3 million in 2019. A net profit of USD 26 million for 2019 was converted to a net loss of USD 9.4 million in 2020 as a result of the circumstances outlined above.

Statement of financial position

The company's total assets at 31 December 2020 amounted to USD 566.7 million (USD 567.5 million).

Property, plant and equipment amounted to USD 345.3 million (USD 285.6 million), an increase of USD 59.7 million, driven by investments in the producing Valhall and Hod oil fields, mainly drilling and well stimulation at Flank West and Flank South West, and redevelopment of the Hod field.

Intangible assets and goodwill amounted to USD 121.1 million (USD 177.4 million) at 31 December. The reduction from 2019 related to impairment of technical goodwill charged during 2020 as a result of the low oil price environment and uncertainty related to the timing of the recovery to previous scenarios.

Pandion Energy has a robust and diversified capital structure made up of committed equity and a debt financing pack. A subscription agreement has been executed for an initial USD 190 million of equity to be injected in the company. To date, USD 109 million of this has been invested, with the remaining amount serving as an undrawn equity reserve for the company. In addition, about USD 4.8 million has been invested by the Pandion Energy team.

The debt financing package includes an RBL facility of USD 150 million, a senior unsecured bond loan of NOK 400 million and an EFF of NOK 400 million. The current borrowing base in the RBL facility is USD 150 million. The company has also extended the EFF by one year, and the facility can be drawn until 31 December 2021 with repayment in the fourth quarter of 2022. More details of debt financing are provided in Note 17.

Pandion Energy is monitoring the pricing of its senior unsecured bond loan and considering, subject to market conditions, whether to take advantage of opportunities to repurchase bonds at value-accretive prices. Potential investments in the company's own bond debt have been permitted by the lenders under the RBL facility. In 2020, the company completed a buyback of its own bonds with a par value of NOK 11 million.

Total equity at 31 December 2020 was USD 126.3 million, slightly down from USD 135 million a year earlier. The equity ratio at 31 December 2020 was 22.3 per cent. The total share capital issued at 31 December 2020 was USD 114.2 million.

The company's interest-bearing debt was USD 157.6 million at 31 December 2020, down from USD 207.3 million a year earlier, and is detailed in Note 17.

The consideration from the successful sale of the Duva field has been invested in the business cycle for exploration, development and production assets to achieve further value creation. Together with the tax changes, this has contributed to reduced leverage despite the low oil price environment and the high level of investment during 2020.

Temporary tax changes to stimulate investment in the petroleum sector were sanctioned by the Storting on 12 June, and provided Pandion Energy with a significant liquidity boost and unique investment conditions. The arrangement with negative tax instalments means that the refund of the tax value of losses incurred in 2020 and 2021 will be made in advance of the tax assessment on a running basis under the instalment tax regime. The company received tax refunds of USD 32 million related to negative tax instalments in 2020.

Cash flow statement

Net cash flow from operating activities in 2020 was USD 71.5 million, up from USD 68.7 million in 2019 despite materially reduced revenue as a result of lower commodity prices. The positive cash flow was primarily driven by tax refunds received in relation to negative tax instalments and exploration costs. The difference between cash flow and profit provided by operating activities is mainly explained by the effect of depreciation, amortisation and net impairment losses, and tax refund received.

Investing activities in 2020 had a net cash outflow of USD 50.8 million, compared with an outflow in 2019 of USD 118.6 million. Investment activities in 2020 related to further development of the Valhall and Hod area, mainly the Valhall Flank West project, and infill drilling on and redevelopment of the Hod field, partly offset by a positive contribution from the divestment of Duva.

The liquidity contribution from the divestment of Duva, together with negative tax instalments, reduced leverage, and net cash flow from financing activities in 2020, was negative at USD 50.4 million compared with a positive cash flow of USD 77.3 million in 2019. This figure comprises (i) the net RBL facility repayment of USD 49.6 million, (ii) the net EFF repayment of USD 0.3 million, (iii) buyback of

*For definitions of Alternative Performance Measures (APM), please refer to page 73.

USD 1.2 million the company's own bond debt and (iv) an equity injection of USD 0.7 million related to buyback of the company's own bond debt.

Cash and cash equivalents decreased to USD 16.8 million at 31 December 2020 from USD 46.6 million a year earlier. The high cash balance at 31 December 2019 related to the divestment of the 10 per cent share in the Duva field, which was completed on 30 December 2019.

Subsequent events

In January 2021, Pandion Energy was awarded five licences under the 2020 APA licensing round on the NCS. That includes two new licences and three additional holdings adjacent to existing licences in the portfolio. In addition to expanding the exploration portfolio with two new licences, the additions to existing licences have secured strategically important acreage surrounding the discoveries which Pandion Energy participated in during 2020. It has also strengthened the company's position in areas where it sees additional upside potential.

The transaction with Wintershall Dea Norge AS to acquire a 2.5 per cent interest in PL 820 S and a 15 per cent interest in PL 617 was approved in January 2021 by the MPE and completed in February 2021. The effective date for the transaction is 1 January 2021. Early 2021, the partnership in PL 617 drilled an exploration well on the Eidsvoll prospect. The well was reported dry.

ALLOCATION OF NET PROFIT/LOSS

Pandion Energy AS recorded a net loss of USD 9.4 million for fiscal year 2020. The board proposes to cover the net loss from other equity.

RISKS AND RISK MANAGEMENT

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

The board of Pandion Energy works with the company to develop a risk management strategy and processes which enable the management to prevent potential events and handle them effectively. The board is also responsible for overseeing the implementation of this strategy by making sure that the framework for identification, control and monitoring in all risk areas accords 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 the focus on achieving the highest risk-adjusted returns for the shareholders.

Covid-19 measures and consequences

Pandion Energy has closely monitored, and continues to closely monitor, the Covid-19 situation with the objective of making sure that the necessary measures are taken to protect staff and operations.

The company is not an operator and not directly involved in the execution of offshore operations on a day-to day basis. However, as the sole partner of the operator for the Valhall and Hod fields, it pursues an active 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 to ensure safe and reliable operations.

In addition to operations on the Valhall and Hod fields, the company has been involved in drilling three exploration wells – Iving in PL 820 S, Appollonia in PL 263 D/E and Slagugle in PL 891. To date, no Covid-related disruption to the Valhall and Hod operations or to exploration drilling has been reported.

Apart from its operational impact, the global pandemic created a challenging backdrop during 2020 and increased uncertainty about the recovery phase. The company took and continues to take the necessary steps to ensure that it remains financially sound even in a scenario where low oil prices persist for an extended period.

Operational risks

The board recognises the risks associated with the company's operational assets. 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 reserve and to develop them.

A risk always exists that a major operational incident could occur, since drilling, production and decommissioning activities will never be completely risk-free. In addition come risks related to the integrity of the company's assets, associated with the reported reserves and resources, and associated with third-party contractors or operators since the company is not the operator of its assets. Development and exploration costs are also uncertain.

As a result of these risks, the company may incur costs which could adversely affect its 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 should an operational incident occur.

Financial risks

The company is exposed to market fluctuations in commodity prices, foreign exchange rates and interest rates. These fluctuations could affect the company directly or indirectly, since they may influence the appetite of banks and investors to lend to or invest in the company. The company considers its credit risk to be low, since its licence partners are creditworthy oil companies and cash and cash equivalents are receivables from banks.

Pandion Energy is heavily focused on active risk management through hedging, a concentration on liquidity, 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
- well control
- 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, Pandion Energy secures cash flows from the sale of crude oil through commodity price hedging. However, a downturn in oil prices could still dampen sentiment amongst market players to invest in exploration and new developments. That in turn could adversely affect the company's growth ambitions.

To reduce risk related to oil price fluctuations, Pandion Energy has established an oil-price hedging programme which ran at 31 December 2020 until the end of 2021. The programme is based on a combination of put options and collar structures.

At 31 December 2020, 52 per cent of after-tax (15 per cent of pre-tax) crude oil production volumes had been hedged for January–December 2021 at an average floor price of USD 37/bbl (USD 34/bbl net of costs). Additional positions may be added to the programme, but the structure, amount and levels of any further hedging will depend on how the market for commodity derivatives develops.

Currency risk

Currency risks arise from multi-currency cash flows within Pandion Energy. The company is exposed to foreign exchange risk on its purchases and sales, including financing costs denominated in currencies other than USD. Although the company will preferably raise funding in USD, market considerations meant that the senior unsecured bond raised in 2018 was in NOK. To mitigate the currency risk arising from 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.

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. Cash flows from ordinary sales and financing activities are mainly generated in USD. The currencies which influence costs are a mix of NOK and USD, where NOK is the main currency. In order to reduce the risk related to its exposure to USD/NOK fluctuations, the company has purchased forward contracts where the underlying transaction is to sell USD and buy NOK.

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 rates 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 its strategic direction.

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

External risks

The business landscape in which the company operates can change rapidly. The risks of fluctuations in commodity prices

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are addressed under financial risks, but the company also faces other external risks which 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 which could adversely affect the company.

Climate change risk
A potential exposure also exists from the response to climate change. The company is likely to become exposed to transition risks related to the anticipated shift to a lower-carbon economy, affecting market fluctuations and behaviour and associated financial risks, as well as external risks such as regulatory changes.

The company aims to develop a portfolio of assets which remains resilient as the government's response to climate change evolves. During 2020, the company has outlined a net zero carbon strategy and aligned its investment criteria with its ambition of maintaining a low carbon footprint. This will ensure that investment decisions and future business planning take account of future carbon-reduction initiatives and carbon-cost projections.

An environmental, social and corporate governance (ESG) committee at board level will be introduced during 2021 to ensure that climate-related risks and opportunities are proactively identified and addressed at appropriate levels in the company's risk management activities.

In the long term, the company's assets may become exposed to physical climate risk. These include an increased frequency or strength of severe weather, potentially resulting in more frequent operational disturbances/disruptions or posing a physical threat to the technical integrity of offshore installations. These risks are currently managed through applicable design and regulatory requirements.

CORPORATE GOVERNANCE AND SUSTAINABILITY
Pandion Energy is committed to rigorous corporate governance practices which create confidence in the company and thereby contribute 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 the executive management more comprehensively than is required by legislation.

Pandion Energy is currently owned by funds managed by Kerogen Capital and by the management team. The company has a bond listed on 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. It 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. A separate section on corporate governance is included in the annual report.

RESEARCH AND DEVELOPMENT
The company invested USD 4.6 million (USD 5.7 million) in research and development in 2020.

In addition to contributions to general and specific R&D activities undertaken by the operators of the fields in which it has an interest, Pandion Energy has been working on the digitalisation of its subsurface capabilities through the application of new digital solutions to geological and geophysical data. Digital solutions such as machine learning and data science will provide increased understanding of subsurface data and make analysis of geological and geophysical information more efficient.

HEALTH, SAFETY AND THE ENVIRONMENT
Health, safety and the environment (HSE) are of paramount importance to Pandion Energy. The company operates in the oil and gas industry, where operations can have a profound impact on the environment and on communities, and where the workforce is exposed to safety risks. Taking account of HSE considerations is therefore strategically important and a prerequisite for the company.

The board of Pandion Energy has adopted an HSE policy for all the company's employees and contractors. Its objective is to ensure that all activities are carried out in a responsible manner, without harm to the people involved and in accordance with the principles of sustainable development aiming to minimise the impact on the environment.

A comprehensive HSE management system has been established by the company. This requires 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 in order 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 this occurring and reducing the potential consequences. Effective management of HSE risk is about embedding HSE practices in 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. It provides a proactive and constructive challenge to the HSE policies, procedures and activities of the operators for its assets. Pandion Energy places great emphasis on ensuring that operations in which the company participates are safe for the people involved, and aims to minimise their impact on the environment. This is enforced through the company's established processes and procedures, which drive regular interaction with the operators and continuous identification of follow-up issues in the following categories: HSEQ and regulatory compliance, joint ventures, 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 identified follow-up item in order to seek additional information or clarification from the operator(s), perform third-party verification work, or pursue Pandion Energy's internal work on technical or operational recommendations to the operator(s).

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

PAYMENTS TO GOVERNMENTS
According to section 3-3d of the Norwegian Accounting Act and section 5-5a of the Norwegian Securities Trading Act, companies engaged in activities in the extractive industries are required annually to disclose payments to governments by country and by project. The Ministry of Finance has issued a regulation (F20.12.2013 no 1682) stipulating that the reporting obligation only applies to reporting entities above a certain size and to payments above a certain threshold amount. Pandion Energy interprets the Act and the regulation in such a way that only payments made directly from the company to governments are to be reported.

Pandion is a non-operator, and since all payments by non-operators in licences will be cash calls transferred to the operator and will as such not be payments to governments from Pandion.

Pandion made no payments to governments other than application fees for APA licensing round and no payments where above the threshold of NOK 800,000.

ORGANISATION
At 31 December 2020, the company had 26 employees, up from 24 a year earlier.

The working environment in Pandion Energy is considered to be good. Sickness absence was 2.44 per cent for 2020, compared with 2.91 per cent in 2019. Since Pandion Energy has relatively few employees, sickness absences by just one or two people could significantly affect the percentage.

Pandion Energy aims to keep sickness absence at low levels by constantly improving working conditions. The company wants 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.

At 31 December 2020, 38 per cent of the employees were female, compared with 33 per cent a year earlier. Women made up 50 per cent of the management team, while one of six directors is female.

The board of Pandion Energy has established, in close cooperation with the management team, a code of conduct which sets out requirements for everyone who works for and on behalf of Pandion Energy. The code applies to the board, senior management and all employees and consultants. Pandion Energy also expects all business partners and suppliers to act in a manner which is consistent with the principles of the code. The code is available on the company's website at pandionenergy.no.

OUTLOOK

Priorities for the future continue to revolve around ensuring the safety and wellbeing of employees, protecting operations and continuously improving HSE through actively engaging with our partners and the Operators of our assets, and securing a solid financial position until the Covid-19 situation is normalised.

Operationally, the strongest priority is to deliver production targets and continue driving value creation within the Valhall and Hod fields, progress the appraisal process of the recent discoveries and maturing related upside potential as well as continuing to grow and develop the exploration portfolio.

In early 2021, Pandion Energy announced its strategy for maintaining a low carbon footprint from the production portfolio and for achieving net zero status. The company's ambitions are aligned with the carbon-reduction strategy adopted by the Norwegian government and the net zero carbon strategy of its main shareholder, Kerogen Capital.

A carbon-light strategy has always been an imperative for Pandion Energy, and the ongoing commitment to carbon neutrality alongside the company's new investment criteria represents a further positive step towards net zero carbon emissions.

Pandion Energy will continue to invest in proven high-quality assets with access to existing infrastructure while aiming to maintain a low carbon footprint, and to focus on further development of the producing Valhall and Hod area.

The board considers Pandion Energy to be 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 the development of oil and gas resources on the NCS. As part of this, it actively searches for and evaluates opportunities to make value-accretive investments, such as acquisitions, farm-ins, licence awards, swaps or the like, and to divest assets in order to realise value created in its existing portfolio.

Oslo, Norway, 22 April 2021
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

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RESPONSIBILITY STATEMENT

We confirm, to the best of our knowledge, that the financial statements for the period from 1 January to 31 December 2020 have been prepared in accordance with the simplified IFRS pursuant to section 3-9 of the Norwegian Accounting Act 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 directors' report provides a true and fair overview of the development, performance and financial position of Pandion Energy AS, together with a description of its principal risks and uncertainties.

Oslo, Norway, 22 April 2021
The Board of Directors and CEO of Pandion Energy AS

Alan John Parsley
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Board Member


FINANCIAL
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Statement of income

Statement of income

(USD`000)	Note	2020	2019
Revenues		76,675	103,489
Gains from sale of assets		35,341	29,909
Other income		4,554	(8,327)
Total revenues and income	6	**116,570**	**125,070**
Operating expenses	7	(27,436)	(34,576)
Depreciation, amortisation and net impairment losses	14	(90,941)	(21,936)
Exploration expenses	7	(20,878)	(24,078)
Total expenses		(139,255)	(80,591)
Profit from operating activities		**(22,685)**	**44,480**
Net financial items	11	(16,159)	(18,780)
Profit before income tax		**(38,844)**	**25,700**
Income tax	12	29,411	329
Net profit		**(9,433)**	**26,029**

Statement of comprehensive income

(USD`000)	Note	2020	2019
Net income		(9,433)	26,029
Items that may be subsequently reclassified to the Statement of income			
Net gain (loss) arising from hedges recognised in OCI	23	(644)	(3,018)
Net amount reclassified to statement of income	23	603	1,904
Tax on items recognised over OCI	12, 23	9	245
Other comprehensive income		(32)	(869)
Total comprehensive income		**(9,465)**	**25,160**

Statement of financial position

Assets

(USD`000)	Note	2020	2019
Goodwill	14	63,138	124,785
Intangible assets	14	57,984	52,583
Property, plant and equipment	13	345,298	285,593
Prepayments and financial receivables		140	135
Right-of-use assets	24	731	1,212
Total non-current assets		**467,291**	**464,308**
Inventories		9,376	3,864
Trade and other receivables	18	13,805	14,889
Assets classified as held for sale	15	-	17,563
Financial assets at fair value through profit or loss	21	2,451	-
Tax receivables	12	56,891	20,296
Cash and cash equivalents	9	16,846	46,557
Total current assets		**99,369**	**103,170**
Total assets		**566,660**	**567,478**

Equity and liabilities

(USD`000)	Note	2020	2019
Share capital		114,230	113,492
Other equity		12,064	21,529
Total equity	19	**126,294**	**135,021**
Deferred tax liabilities	12	73,783	14,455
Asset retirement obligations	20	160,936	156,875
Borrowings	17	127,501	176,027
Hedging derivatives	23	8,793	9,941
Long term lease debt	24	555	901
Total non-current liabilities		**371,569**	**358,199**
Asset retirement obligations - short term	20	12,737	16,734
Trade, other payables and provisions	22	31,024	33,849
Borrowings	17	24,168	23,071
Financial liabilities at fair value through profit or loss	21	653	252
Short term lease debt	24	215	352
Total current liabilities		**68,798**	**74,258**
Total liabilities		**440,367**	**432,457**
Total equity and liabilities		**566,660**	**567,478**

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Oslo, Norway, 22 April 2021
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

(USD`000)	Note	2020	2019
Income before tax		(38,844)	25,700
Depreciation, amortisation and net impairment losses	13, 14	91,018	22,021
Expensed capitalised exploration expenses	7	9,574	14,831
Accretion of asset removal liability	11, 20	6,176	5,987
(Gains) losses on sales of assets	6	(35,341)	(29,909)
Deferred tax liability on sale of assets	12	6,899	3,343
(Increase) decrease in value of financial asset at fair value through profit or loss	6	(4,554)	8,327
(Increase) decrease operational financial asset	21	5,460	-
Net financial expenses	11	9,983	12,793
Interest and fees paid		(11,420)	(14,050)
(Increase) decrease in working capital		(17,612)	11,277
Income tax received		50,158	8,513
Net cash flow from operating activities		**71,498**	**68,732**

(USD`000)	Note	2020	2019
Payment for removal and decommissioning of oil fields	20	(16,737)	(7,279)
Capital expenditures and investments in furniture, fixtures and office machines	13	(18)	(169)
Capital expenditures and investments in oil and gas assets	13	(62,995)	(126,060)
Capital expenditures and investments in exploration and evaluation assets	14	(30,482)	(36,388)
Cash flow from divestments	6	59,428	51,324
Net cash flow from investing activities		**(50,805)**	**(118,571)**
Increase interest bearing obligations, loans and borrowing		42,676	94,443
Decrease interest bearing obligations, loans and borrowing		(93,818)	(17,179)
Proceeds from capital distribution		738	-
Net cash flow from financing activities		**(50,404)**	**77,264**
Net change in cash and cash equivalents		**(29,711)**	**27,424**
Cash and cash equivalents at the beginning of the period		**46,557**	**19,133**
Cash and cash equivalents at the end of the period		**16,846**	**46,557**

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 (NCS).

The financial statements of the company for the period ending 31 December 2020 were authorised for issue in accordance with a resolution of the Board of Directors ("the Board") on 22 April 2021.

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 simplified 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.

There have been no significant changes to the accounting policies adopted for financial year 2020 compared to those followed in the financial statements for 2019.

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 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.

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 and changes in income taxes related to prior periods.

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 or other comprehensive income 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.

In June 2020, in an effort to stimulate petroleum industry activity in light of the oil price development and the covid-19 situation, the Norwegian Storting (Parliament) agreed on temporary changes to the petroleum tax regime. The temporary tax changes imply that:

1) Offshore investments in 2020 and 2021 are depreciated in 1 year instead of over 6 years in the special petroleum tax regime,
2) Offshore investments in 2020 and 2021 are given an uplift of 24 % in 1 year instead of a total of 20.8 % over 4 years, also in the special petroleum tax regime,
3) Investments following a PDO delivered by 2022 and approved by 2023 will have these same favourable depreciation and uplift rules until the start of production, and
4) Any tax losses incurred in the offshore tax regime for 2020 and 2021 will be refunded from the tax authorities, both for corporate tax and special tax regime, including uplift.

The tax effect of the temporary changes is included as of 31.12.2020 and contributes to increase in deferred tax liabilities and increase in tax receivables – short term.

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.

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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 the initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Financial assets

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

Financial assets are presented as current if these contractually will expire or otherwise are expected to be recovered within 12 months after the balance sheet date, or if these are held for the purpose of being traded. Financial assets and financial liabilities are shown separately in the Balance sheet, unless Pandion 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 balance sheet.

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an 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 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 AS's line of business, judgement is involved in determining what constitutes a CGU. Development in production, infrastructure solutions, markets, product pricing, management actions and other factors may over time lead to changes in CGUs such as the division of one original CGU into several.

In assessing whether a write-down of the carrying amount of a potentially impaired asset is required, the asset's carrying amount is compared to the recoverable amount. The recoverable amount of an asset is the higher of its fair value less cost of disposal and its value in use. Fair value 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 producing assets (property, plant and equipment and other intangible assets), respectively.

Impairment of goodwill

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

Financial liabilities

Interest-bearing loans and borrowings are initially recognised at cost and subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated considering 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 statement of income as other income.

FX forward contracts are entered into for currency exposure hedging. In order to reduce the risk related to exposure to USDNOK fluctuations, the company has purchased forward contracts where underlying transaction is to sell USD and buy NOK. 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 with impact recognised in the statements of income as financial items.

Cross-currency swaps (CCS) have been entered into for hedging foreign currency risk arising from the company´s bond issuance in NOK. Further the interest-rate risk arising from the aggregate exposure of the bond issuance and cross currency swaps is hedged using Interest rate swaps (IRS). Currently, Pandion Energy has chosen to apply hedge accounting to their CCS and IRS. The objective of using hedge accounting under IFRS 9 is to reflect the effect of the company´s risk management activities in the financial statements. Please refer to 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 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 and based on the yearly average interest of the company. The basis for the monthly capitalisation is the capitalised assets for each project.

Operating cost
The company allocates its payroll and administrative expenses to development, operational and exploration activities based on 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.

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.

Covid-19 measures and consequences
The global pandemic led to a challenging backdrop during 2020 and increased uncertainty with regards to the phase of recovery. The company took and continues to take necessary steps to ensure that the company remains financially sound also in a scenario with low oil prices for an extended period. Key financial assumptions have been updated reflecting decline in the expected future commodity price estimates and has impacting the financial statements.

Proven and probable oil and gas reserves
Proven and probable oil and gas reserves have been estimated based on 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.

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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 and recognised in the statement of income as exploration expenses 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 CGUS, 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
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
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, Pandion Energy secures cash flows from the sale of crude oil through commodity price hedging. However, a downturn in oil prices could still dampen sentiment amongst market players to invest in exploration and new developments. That in turn could adversely affect the company's growth ambitions.

To reduce risk related to oil price fluctuations, Pandion Energy has established an oil-price hedging programme which ran at 31 December 2020 until the end of 2021. The programme is based on a combination of put options and collar structures.

At 31 December 2020, 52 per cent of after-tax (15 per cent of pre-tax) crude oil production volumes had been hedged for January–December 2021 at an average floor price of USD 37/bbl (USD 34/bbl net of costs). Additional positions may be added to the programme, but the structure, amount and levels of any further hedging will depend on how the market for commodity derivatives develops.

Currency risk

Currency risks arise from multi-currency cash flows within Pandion Energy. The company is exposed to foreign exchange risk on its purchase and sales, including financing costs denominated in currencies other than USD. Although the company will preferably raise funding in USD, market considerations meant that the senior unsecured bond raised in 2018 was in NOK. To mitigate the currency risk arising from 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.

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. Cash flows from ordinary sales and financing activities are mainly generated in USD. The currencies which influence costs are a mix of NOK and USD, where NOK is the main currency. In order to reduce the risk related to its exposure to USD/NOK fluctuations, the company has purchased forward contracts where the underlying transaction is to sell USD and buy NOK.

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-rates 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 its 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 develops short-term (12 months) and long-term forecasts to plan its liquidity. These forecasts are updated regularly for various scenarios, and form part of the decision basis for the company's management and board.

Pandion Energy's debt financing include 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 is also a minor credit risk exposure related to trade receivables and overcall in licences. 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 2020:

Licence	*Interest aquired*
PL 938	20 %

In 2020, Pandion Energy has undertaken a transaction with ConocoPhillips Skandinavia AS to acquire 20 % working interest in PL 938 with effective date 1 January 2020.

Acquired in 2019:

Licence	*Interest aquired*
PL 842	30 %
PL 263	20 %
PL 891	20 %

In 2019, Pandion Energy undertook 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 263 was acquired from Equinor Energy AS, and 20 per cent of working interest in PL 891 was acquired from ConocoPhillips Skandinavia AS.

Disposals and relinquishment of licences

Disposals in 2020:

Licence	*Interest disposed*
PL 1047	10 %
PL 636/PL 636 B	10 %

On 31 January 2020, Pandion Energy completed the divestment of a 10 per cent of working interest in the Duva field to PGNiG Upstream Norway AS with an effective date of 1 January 2020.

On 18 December 2020, Pandion Energy completed the divestment of their 10 per cent share of working interest in PL 1047 to ConocoPhillips Skandinavia AS with an effective date of 1 January 2020. The license was swapped in exchange for a 20 per cent interest in PL 938.

Disposals in 2019:

Licence	*Interest disposed*
PL 636/PL 636 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 2020:

The company has not accounted for any relinquishment in 2020.

Relinquishment in 2019:

Licence	*Interest 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.

NOTE 5 Interests in licences

Interests in licences on the Norwegian continental shelf as of:

Licence source	Licence portfolio	Jan-21	Dec-20	Jan-20
Acquisitions	PL 006 Valhall field	10 %	10 %	10 %
Acquisitions	PL 033 B Valhall field	10 %	10 %	10 %
Acquisitions	PL 033 Hod field	10 %	10 %	10 %
Acquisitions / APA 2020	PL 891/ PL 891 B - (Slagugle)	20 %	20 %	20 %
Acquisitions / APA 2020	PL 820 S/PL 820 SB - (Iving)	12.5 %	10 %	10 %
Acquisitions / APA 2020	PL 263 D & E /PL 263 F - (Appolonia)	20 %	20 %	20 %
Acquisitions	PL 938	20 %	20 %	0 %
Acquisitions	PL 617	15 %	0 %	0 %
Acquisitions	PL 842	0 %	0 %	30 %
Acquisitions/APA 2018	PL 636/PL 636 B Duva field	0 %	0 %	10 %
APA 2017	PL 912	0 %	0 %	30 %
APA 2017	PL 929	20 %	20 %	20 %
APA 2018	PL 985	20 %	20 %	20 %
APA 2019	PL 1047	10 %	10 %	20 %
APA 2019	PL 1062	30 %	30 %	30 %
APA 2020	PL 1108	30 %	0 %	0 %
APA 2020	PL 1119	20 %	0 %	0 %

In January 2020, the company was awarded two licences in the APA 2019 round.

On 31 December 2020 Pandion Energy entered into an agreement with Wintershall DEA Norge AS to acquire a 2.5 % interest in PL 820S – Iving Discovery and a 15 per cent interest in PL 617. Pandion Energy increases its interest in PL 820S to 12.5 per cent. The transaction was approved in January 2021 by the Norwegian Ministry of Petroleum and Energy and completed in February 2021. Effective date for the transaction is 1 January 2021.

In January 2021, Pandion Energy AS was awarded five licences under the 2020 APA (Award in Pre-defined Areas) licence round on the Norwegian continental shelf. That includes two new licences and three additional acreages in the licences already existing in the portfolio. In addition to expanding the exploration portfolio with two new licenses Pandion has, with the awards of additional acreages secured strategically important acreage surrounding discoveries Pandion has taken part in during 2020 and strengthened the position in areas where the company see additional upside potential.

The company holds a total of 14 licences after the APA 2020 awards and acquisition of PL 617.

NOTE 6 Total revenues and income

Revenues	2020	2019
(USD`000)		
Oil	65,312	93,926
Gas	9,658	8,028
NGL	1,705	1,484
Other	-	50
Revenues	76,675	103,489

All revenues are generated from activities on the Norwegian continental shelf (NCS).

Other income	2020	2019
(USD`000)		
Realised gain/(loss) on oil derivaties	4,955	(3,843)
Unrealised gain/(loss) on oil derivates	(401)	(4,484)
Total other income	4,554	(8,327)

Gains from sale of assets	2020	2019
(USD`000)		
Payment received	59,377	51,324
Net assets divested	(30,935)	(24,658)
Deferred tax	6,899	3,243
Gains from sale of assets	35,341	29,909

On 31 January 2020, Pandion Energy completed the divestment of a 10 per cent working interest in the Duva field to PGNiG Upstream Norway AS with an effective date of 1 January 2020. The transaction involved a consideration of USD 59.3 million, including working capital and historical tax and uplift balances.

The transaction resulted in a net after tax accounting gain of USD 35.4 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.

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NOTE 7 Exploration and operating expenses

Exploration expenses	2020	2019
(USD`000)		
Expensed cost, seismic and studies	3,434	213
Expensed cost, general and administrative	7,870	9,035
Expensed exploration expenditures previously capitalised	9,574	14,831
Total	20,878	24,078

Operating expenses	2020	2019
(USD`000)		
Production cost	20,577	23,631
Change in inventories	(2,899)	2,056
Tariff and transportation cost	6,883	5,347
Other cost	2,875	3,542
Total	27,436	34,576

NOTE 8 Remuneration

	2020	2019
(USD`000)		
Salaries	6,441	7,434
Social security tax	865	874
Pension expenses	451	442
Other remuneration	93	144
Total payroll expenses	7,849	8,894

The company had an average of 25.3 employees in 2020 compared to 23.1 in 2019. The number of employees as of year-end was 26 compared to 24 at the end of 2019.

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 2020, the bonus will be disbursed in March 2021.

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 (BoD)

Compensation to CEO	2020	2019
(USD`000)		
Salaries	319	325
Bonuses	147	156
Pension expenses	19	20
Other remuneration	2	3

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 2020 and USD 50,000 in 2019.

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 0.71 per cent and 0.53 per cent of the shares in Pandion Energy AS, respectively.

NOTE 9 Restricted bank deposits

	2020	2019
(USD`000)		
Restricted bank deposits		
Pledge account exploration finance facility	-	2,134
Withheld employee taxes	355	287
Total	355	2,421

NOTE 10 Auditor's remuneration

	2020	2019
(USD`000)		
Audit fee	51	75
Other attestation services	4	5
Other services	35	14
Total	91	94

NOTE 11 Financial items

	2020	2019
(USD`000)		
Net foreign exchange gains (losses)	(970)	(101)
Foreign exchange gains/losses on derivative financial instruments	2,451	-
Interest income	314	192
Amortised loan costs	(988)	(678)
Accretion expenses	(6,176)	(5,987)
Interest expenses	(11,057)	(11,948)
Other financial items	266	(259)
Net financial items	(16,159)	(18,780)

NOTE 12 Income taxes

	2020	2019
(USD`000)		
Tax receivable from exploration refund	(35,164)	(20,299)
Tax receivable from current year tax losses and uplift	(55,522)	-
Change deferred tax balance sheet	52,186	16,394
Change deferred tax OCI	9	245
Deferred taxes recognised as part of gain from sale	6,899	3,243
Adjustments related to prior periods	2,181	89
Income tax	(29,411)	(329)
Income tax in OCI	(9)	(245)
Total income tax	(29,420)	(573)

Reconciliation of statutory tax rate to effective tax rate:

	2020	2019
(USD`000)		
Profit before income tax	(37,313)	25,698
Calculated income taxes at:		
Statutory tax rate 22 % (22 %)	(8,209)	5,654
Petroleum surtax at statutory tax rate 56 % (56 %)	(20,895)	14,391
Tax effect of:		
Tax effect related to sale or acquisition of oil and gas assets	(31,933)	(26,949)
Tax effect related to permant differences	(5,768)	(3,151)
Effect of items allocated onshore	(1,446)	5,905
Change in deferred tax related to financial items	616	2,728
Effect change tax rates	-	-
Effect related to interest on loss carried forward	(108)	(225)
Uplift	(13,495)	(4,538)
Adjustments prior period	15	124
Deferred tax assets not recognised	2,541	3,190
Deferred tax recognised as part of gain from sale of assets	6,899	3,243
Impairment of technical goodwill	48,085	-
Translation differences	(5,713)	(701)
Total	(29,411)	(329)
Effective tax rate	78,8 %	-1.3 %

When computing the petroleum tax of 56 per cent on income from the Norwegian continental shelf, a tax-free allowance, or uplift, is granted. For investments up to 2019, the uplift is 20.8 per cent deducted from taxable income in the special tax regime over a period of four years. As a result of the temporary changes in the petroleum tax regime in 2020, described further in Note 2, the uplift rate for investments in 2020 and 2021 is 24 per cent fully deductible in year 1. The uplift is computed on the basis of the original capitalised cost of offshore production installations. Unused uplift may be carried forward indefinitely, however, uplift incurred in 2020 and 2021 will be refunded to the company if taxable income is negative due to the temporary changes in the tax regime. At year-end 2020, unrecognised future uplift credits related to capitalised cost amounted to USD 7 million.

The difference in effective tax rate in 2020 compared to the total statutory tax rate of 78 per cent is primarily related to permanent differences arising from received after tax consideration on sale of assets, uplift recognised in 2020 mainly related to the temporary changes in the petroleum tax regime and translation differences related to income taxes calculated in NOK. These effects have been offset against impairment of goodwill where no deferred tax has been recognised, changes in deferred taxes related to sale of assets included in gains from sale of assets and effect of net financial expenses taxable in corporate tax regime only.

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

	2020	2019
(USD`000)		
Deferred tax assets on		
Losses carry forward	8,636	8,897
Loss carry forward not recognised	(251)	(520)
Future uplift recognised in PPA	-	581
Uplift carry forward	9,999	9,646
Asset retirement obligations	135,465	135,415
Inventories	-	935
Other items	4,026	3,502
Total deferred tax assets	157,875	158,456
Deferred tax liabilities on		
Property, plant and equipment	(226,860)	(158,184)
Capitalised exploration expenditures and capitalised interest	(1,340)	(20,399)
Inventories	(2,201)	-
Other items	(1,257)	(1,471)
Total deferred tax liabilities	(231,658)	(180,054)
Net deferred tax liabilities	(73,783)	(21,597)
Deferred tax assets reclassified to assets held for sale	-	7,142
Net deferred tax liabilites in balance sheet	(73,783)	(14,455)

Change in net deferred tax liabilities during the year:

	2020	2019
(USD`000)		
Net deferred tax liabilities at 1 January	(14,455)	(5,202)
Deferred tax assets reclassified to assets held for sale	(7,142)	7,142
Charged to the statement of income	(52,195)	(16,639)
Charged to OCI	9	245
Net deferred tax liabilities at 31 December	(73,783)	(14,455)

Reconciliation of tax receivables:

	2020	2019
(USD`000)		
Tax receivables at 1 January	20,296	9,094
Refund from Skattetaten for prior year tax refund	(20,296)	(9,094)
Tax receivables from exploration refund	35,164	20,296
Tax receivables from current year tax losses from other than exploration and uplift	41,430	-
Tax receivables from Uplift	14,093	-
Refund from Skattetaten from current year tax losses from other than exploration and uplift	(33,795)	-
Tax receivable at 31 December	56,891	20,296

NOTE 13 Property, plant and equipment

	Oil and gas assets	Tools and equipment	Total
(USD`000)			
Carrying amount at 1 January 2019	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	62,995	18	63,013
Disposals	-	(20)	(20)
Asset removal obligation - Change of estimate	10,625	-	10,625
Transfers	15,457	-	15,457
Depreciation	(29,294)	(76)	(29,371)
Carrying amount at 31 December 2020	345,224	74	345,298
Estimated useful lives (years)	UoP	3-10	

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

NOTE 14 Intangible assets

	Goodwill	Exploration and evaluation assets	Total
(USD`000)			
Carrying amount at 1 January 2019	124,785	59,110	183,895
Acquisition	-	198	198
Capitalised license 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
Acquisition	-	1,251	1,251
Capitalised licence costs	-	30,217	30,217
Expensed exploration expenditures previously capitalised	-	(9,574)	(9,574)
Impairment	(61,647)	-	(61,647)
Disposals	-	(1,036)	(1,036)
Transfers to tangible assets	-	(15,457)	(15,457)
Carrying amount at 31 December 2020	63,138	57,984	121,122

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

Expensed exploration expenditures previously capitalised is mainly related to costs for to the exploration well in PL 263 Appolonia. The well was completed in October 2020 with a small gas discovery.

NOTE 15 Assets classified as held for sale

	Total
(USD` 000)	
Carrying amount at 1 January 2019	-
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
Paid cash call	6,473
Deferred tax	7,142
Change in deferred tax	(243)
Disposals	(30,935)
Carrying amount at 31 December 2020	-

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 636 B.

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.

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 31.12.2020:
- Impairment test of oil and gas assets and related intangible assets
- Impairment test of goodwill

An impairment of goodwill amounting to USD 61.6 million has been charged during 2020. No impairments of oil and gas assets were recognised in 2020.

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 remaining goodwill (USD 63.1 million) 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 represents the excess purchase price after all the identifiable assets and liabilities were recognised and has been written off in full.

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.

In the assessment of the impairment at 31 December 2020, 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 2021 and 2022, a mean of market participant view from 2023 to 2026 and a 2 per cent inflation of the 2026 market participant view from 2027 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 2020.

Year	2021	2022	2023	2024	2025	2026	From 2027
Brent oil price,							
USD/BOE, in real terms	51	49	55	56	57	59	59
Currency rates, USD/NOK	8.58	8.61	8.49	8.36	8.24	8.12	8.00

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

Assumption	Impairment
(USD` 000)	
Commodity prices reduction of 10 %	29,262
Production volume (reserves) reduced by 5 %	14,143
Discount rate increased by 1 % point	12,011
USD/NOK reduced by 1 NOK/USD	17,797
Inflation reduced by 1 % point	10,500

NOTE 17 Borrowings

Revolving Exploration Finance Facility

	Facility currency	Utilised amount	Undrawn facility	Interest	Maturity	Carrying amount
(USD'000)						
At 31 Desember 2020	NOK	24,529	22,350	NIBOR + 1.75 %	Dec 2021	24,168
At 31 December 2019	NOK	23,208	22,348	NIBOR + 1.25 %	Dec 2020	23,071

The total credit limit for the company at 31 December 2020 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 2021, with repayment during fourth quarter 2022.

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

	2020	2019
(USD'000)		
Current tax receivable - exploration refund	35,164	20,296
Total	35,164	20,296

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):

	Facility currency	Utilised amount	Undrawn facility	Interest	Maturity	Carrying amount
(USD'000)						
At 31 December 2020	USD	83,500	66,500	LIBOR + 3.5 %	July 2026	81,424
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. In 2019 the RBL lenders approved to postpone the Final Maturity Date from 9 April 2025 to 1 July 2026. 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 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

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

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

	2020	2019
(USD'000)		
Bank accounts excluding pledge account EFF	16,491	44,136
Borrowing base assets*	198,126	148,718
Trade receivables	6,043	11,343
Inventory	2,567	(332)
Hedging agreements	(653)	(252)
Total	222,573	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

	Facility currency	Utilised amount		Interest	Maturity	Carrying amount
(USD'000)						
At 31 Desember 2020	NOK	49,566	-	10.61 %	April 2023	45,077
At 31 December 2019	NOK	50,967	-	10.61 %	April 2023	44,607

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.

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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
(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

	2020	2019
(USD` 000)		
Less than 12 months	24,529	23,208
1 to 5 years	49,566	50,967
Over 5 years	84,500	134,100
Total	158,595	208,275

NOTE 18 Trade and other receivables

Other receivables mainly consist of receivables, prepaid expenses and other receivables related to Pandion Energy AS's interests in licences.

NOTE 19 Equity and shareholders

(USD` 000)	Share capital	Other reserves	Retained earnings	Total equity
Shareholders' equity as of 1 January 2019	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 increase	738	-	-	738
Net income for the period	-	-	(9,433)	(9,433)
Other comprehensive income (loss) for the period	-	(32)	-	(32)
Shareholders' equity as of 31 Desember 2020	114,230	(3,478)	15,542	126,294

Share capital of NOK 918 578 319.45 comprised 911 921 294 shares at a nominal value of NOK 1.0073.

Pandion Energy Holding AS owns all 911 921 294 shares in Pandion Energy AS as at 31 December 2020. 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.

A Subscription and Investment Agreement between Pandion Energy Holding AS and Kerogen has been executed for USD 190 million in equity, of which USD 109 million has been injected as of 31.12.2020 in addition to capital from the management team of Pandion Energy.

The capital of USD 190 million is committed to Pandion Energy Holding AS 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.

NOTE 20 Asset retirement obligations

(USD` 000)	
Asset retirement obligations at 1 January 2019	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
New or increased provisions	6,486
Asset removal obligation - Change of estimate	4,139
Amounts charged against asset retirement obligations	(16,737)
Accretion expenses	6,176
Asset retirement obligations at 31 Desember 2020	173,673
Non-current portion at 31 December 2020	160,936
Current portion at 31 December 2020	12,737

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

(USD` 000)	Oil derivatives	Currency futures
Financial assets (liabilities) at 1 January 2019	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)	-
New contracts at cost	-	-
Expired contracts at cost	(143)	-
Financial assets at 31 December 2020 before value increase/decrease	(395)	-
Value increase (decrease)	(258)	2,451
Financial assets (liabilities) at 31 December 2020	(653)	2,451

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 2020, Pandion Energy had put in place a hedging programme until 31.12.2021. Most of the existing hedging programme is based on put options, however part of the hedging is collar structures. The negative fair value of the options at 31.12.2020 is explained by the options are purchased with deferred premium.

NOTE 22 Trade, other payables and provisions

(USD` 000)	2020	2019
Trade payables	2,733	6,517
Share of payables in licences	16,923	15,163
Other non-trade payables, accrued expenses and provisions	11,368	12,170
Trade, other payables and provisions	31,024	33,849

NOTE 23 Designated accounting 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 Swaps (CCS) and Interest Rate Swaps (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 swaps	
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	NOK-NIBOR-NIBR
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 2022
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:

(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	-	5,970	Hedging derivatives	2,211
Interest rate risk	Interest rate swap	51 610	-	2,824	Hedging derivatives	(942)

Hedging reserve	Interest rate risk	Foreign exchange risk	Sum
(USD` 000)			
Opening balance hedge reserve 2019	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 Income statement – from OCI	1,434	470	1,904
Tax	(14)	259	245
Closing balance - hedge reserve 2019	218	(3,663)	(3,445)
Added to OCI: Change in fair value			
of hedging instrument recognised in OCI	(1,727)	1,083	(644)
Reclassified to Income statement – from OCI	1,977	(1,374)	603
Tax	(55)	64	9
Closing balance - hedge reserve 2020	413	(3,890)	(3,478)

Amount reclassified to profit and loss	
Transfers due to hedge item affecting profit or loss	
Interest rate risk	1,977
Foreign exchange risk	-1,374
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 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 contract for the additional office space was terminated may 2020. The termination fee for the terminated contract was USD 12 thousand. In June 2020 Pandion Energy entered into an additional agreement for extra storage space. The right-of-use storage asset is valued at USD 12 thousand. The lease does not contain any restriction on the company's dividend policy or financing.

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.

(USD` 000)	
Operating lease debt after IFRS 16 at 1 January 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 at 31 December 2019	1,253
Remeasurement lease liability	30
New lease debt recognized in the period	12
Derecognition of lease liability	(234)
Lease payments	(383)
Interest expense	63
Currency adjustments	29
Total lease debt after IFRS 16 at 31 Desember 2020	770

Nominal lease debt maturity break down	2020	2019
(USD` 000)		
Within 1 year	234	533
1 to 5 years	564	1,040
After 5 years	-	-
Total	798	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 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. Pandion Energy has assessed the lease contracts in its licences and based on Pandion Energy's judgement no leases have been recognized in the balance sheet as of 31 December 2020.

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. The contract period for Maersk Reacher came to an end in November 2020.

Long term commitments partner-licenses rigs	2020	2019
(USD` 000)		
Within 1 year	7,384	8,860
1 to 5 years	3,887	10,391
After 5 years	-	-
Total	11,272	19,251

On PL 820 S, the Iving discovery, a lease agreement for a rig has been entered into by the operator on behalf of partners to be used for the appraisal program in 2021. This lease commitment is not included in the above overview.

As a partner of licenses Valhall and Hod, Pandion Energy has obliged commitments for development and other projects. Pandion Energy's share of other long-term commitments related to development projects are stated below:

Other long term commitments - Dev projects	2020	2019
(USD` 000)		
Within 1 year	28,205	23,981
1 to 5 years	3,500	-
After 5 years	-	-
Total	31,705	23,981

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NOTE 25 Other commitments and contingencies

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. The company has future contractual obligations related to development projects in non-operated licences of approximately USD 31.7 million, mainly related to the Hod Development project.

Pandion Energy is further required to participate in the approved work programmes for the licences. The company'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 2020.

NOTE 26 Reserves (unaudited)

Proved and probable reserves	million barrels of oil equivalent (mmboe)
Balance at 1 January 2020	40.5
Revision of previous estimates	0.9
Discoveries, additions and extentions	4.5
Acquisition of reserves	-
Divestment of reserves	(8.6)
Year 2020 production	(2.1)
Total reserves at 31 December 2020	33.4

The company`s proved and probable oil and gas reserves (2P) have been at the end of 2020 estimated to approximately 33.4 mmboe compared to approximately 40.5 mmboe in 2019.

Reserves are calculated in accordance with the Norwegian Petroleum Directorate's requirements and based on revised national budget (RNB) 2021 numbers received from the operators together with internal information.

NOTE 27 Subsequent events

In January 2021, Pandion Energy was awarded five licences under the 2020 APA (Award in Pre-defined Areas) licence round on the Norwegian continental shelf. That includes two new licences and three additional acreages in the licences already existing in the portfolio.

On 31 December 2020, Pandion Energy has entered into an agreement with Wintershall DEA Norge AS to acquire a 2.5 per cent interest in PL 820 S – Iving Discovery and a 15 per cent interest in PL 617. The transaction was approved in January 2021 by the Norwegian Ministry of Petroleum and Energy and completed in February 2021. Effective date for the transaction is 1 January 2021.

Early 2021, the partnership in PL 617 drilled an exploration well on the Eidsvoll prospect. The well was reported dry.

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, impairment and exploration expenses.

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 cost.

Scope 1 GHG emissions
Direct emissions from owned or controlled sources.

Scope 2 GHG emissions
Indirect emissions from the generation of purchased energy.

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 2020, the 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 2020, 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 a true and fair view of the financial statements in accordance with simplified application of International Accounting Standards according to the Norwegian Accounting Act section 3-9, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 a true and fair view.

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, the going concern assumption and the proposed allocation of the result is consistent with the financial statements and complies with the law and regulations.

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

Oslo, 22 April 2021
Deloitte AS

Mette Herdlevær
State Authorised Public Accountant (Norway)

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The signatures in this document are legally binding. The document is signed using Penneo™ secure digital signature. The identity of the signers has been recorded, and are listed below.

"By my signature I confirm all dates and content in this document."

Mette Herdlevær
State Authorised Public Accountant (Norway)
Serial number: 9578-5998-4-4703159
IP: 77.16.xxx.xxx
2021-04-22 11:24:01Z

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Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

Dr. Gro Harlem Brundtland,
Previous Prime Minister of Norway & Director-General of the World Health Organization