

– A SHARP EYE FOR NCS OPPORTUNITIES –

ANNUAL REPORT 2021



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.



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A close-up, low-angle shot of a person's legs and feet as they walk on a large, rotating metal roll in an industrial setting. The person is wearing blue denim overalls and safety boots with blue and red patterns. The background is blurred, showing other workers in blue overalls and industrial equipment. The word "INTRODUCTION" is overlaid in white, sans-serif capital letters across the center of the image.

INTRODUCTION

About Pandion Energy



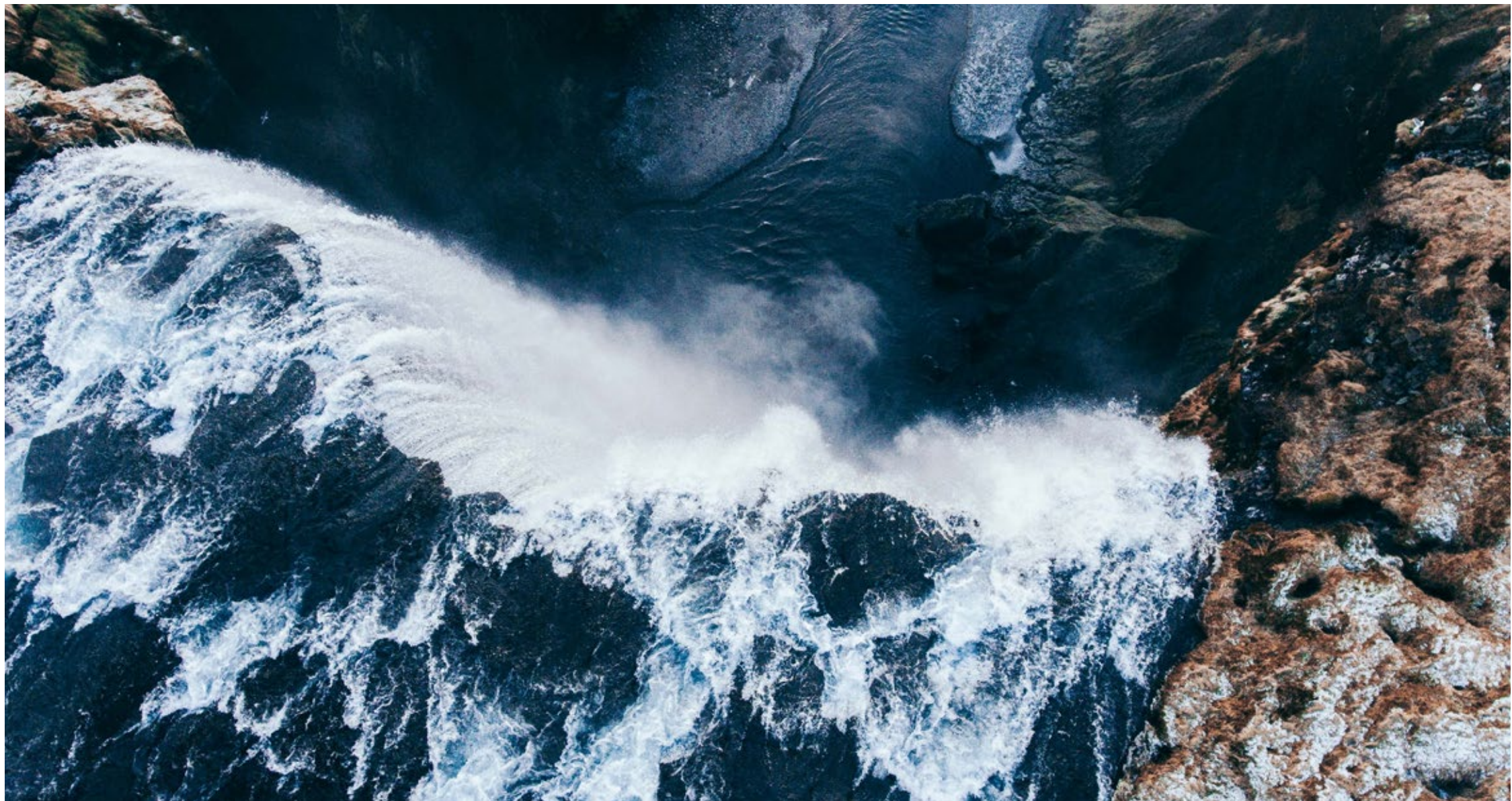
Pandion Energy is an independent, full-cycle oil and gas company, participating in the discovery, appraisal, development and production of oil and gas resources on the Norwegian continental shelf (NCS).

Pandion Energy was established in November 2016 on the basis of the operational platform and six 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 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, targeting upsides in and around proven assets with access to existing infrastructure.

The current portfolio comprises a 10 per cent interest in the producing Valhall and Hod 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.

In March 2022, the company announced the acquisition of ONE-Dyas Norge AS. The transaction includes a 10 per cent share of the Nova field, expected



to start production in the second half of 2022, and a total of 10 exploration licences.

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

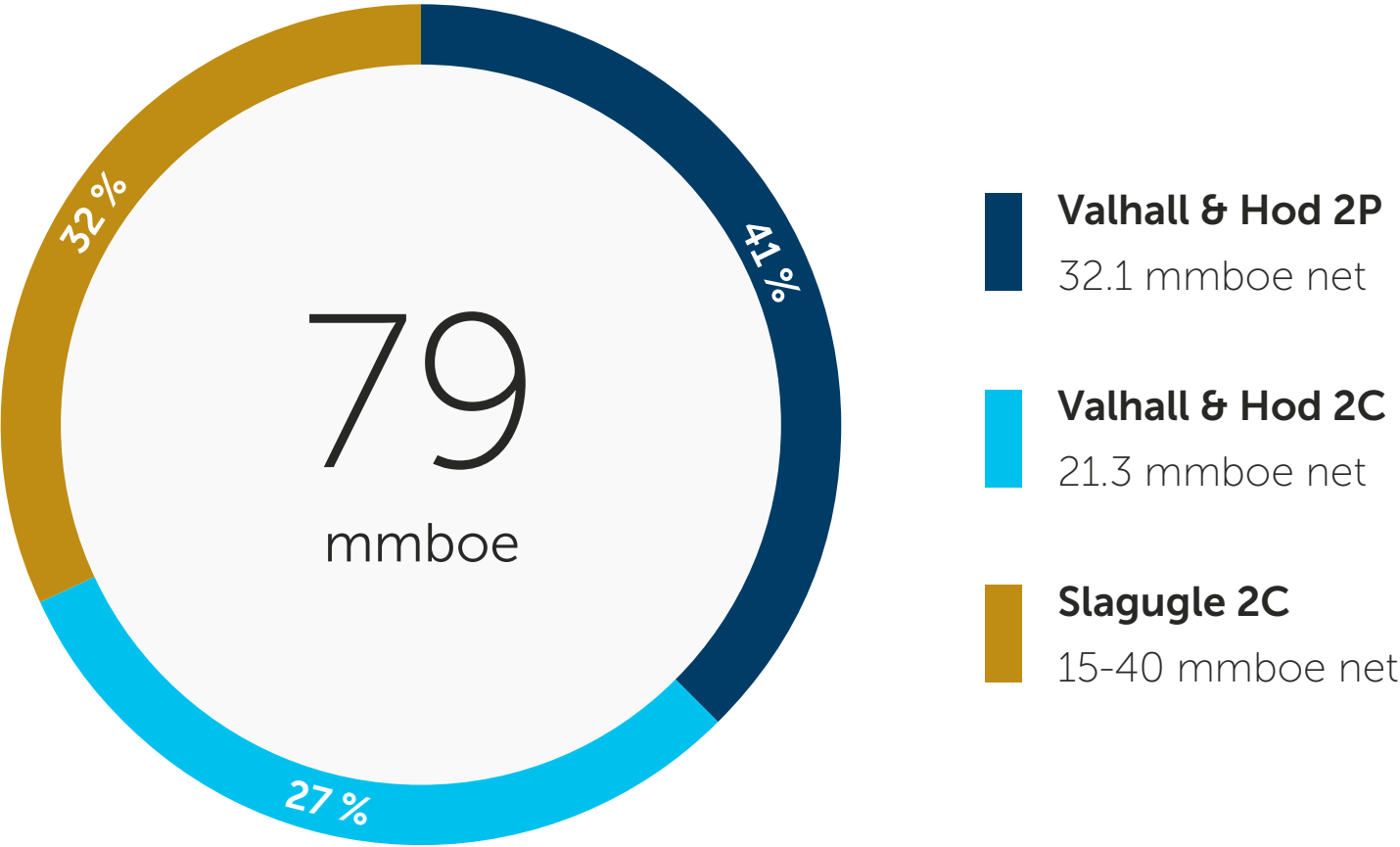
2007, Kerogen manages more than USD 2 billion of capital commitments from a blue-chip institutional investor base.

Since its inception, Pandion Energy has been committed to maintaining a low carbon footprint – as demonstrated by carbon intensity levels per barrel which are amongst the lowest in the Norwegian and global E&P industry, ranging from 1.1 – 3.4 kilograms of CO₂ per barrel of oil equivalent. In 2020, Pandion Energy was one of the first exploration and production (E&P) companies in Norway to achieve carbon neutrality for CO₂ emissions in scopes 1 and 2.

Key figures end 2021



Reserves & Resources



Key figures

	2021	2020
Production in boepd	5,152	5,639
Net sales in boepd	5,516	5,313
Average realised price (USD/boe)	68.6	39.4
(USD` 000)		
Revenues	137,939	76,675
EBITDAX	100,785	89,134
Total assets	615,519	566,660
Total equity	133,196	126,294
Total interest bearing debt	135,841	157,595

Letter from our CEO



During our first five years in operation, we have grown to become a recognised player in exploration and development on the Norwegian continental shelf (NCS). Our 10 per cent interest in the Valhall area gives us daily production of over 5 000 barrels of oil equivalents. In March 2022, we announced the acquisition of the Norwegian operations of Dutch company ONE-Dyas, which represents a new quantum leap in the Pandion Energy story and secures the foundation for further growth.

This transaction includes a 10 per cent share of the Nova field, which is planned to come on stream in the second half of this year. When that field reaches plateau output, our daily production will be more than doubled.

Also nearly doubling our exploration bank, the ONE-Dyas portfolio fits well with our existing holdings. The Nova development is a subsea infrastructure with a low CO₂ footprint, well in line with our environment, social and governance (ESG) strategy.

Five exciting years

Looking back, our first five years have been an interesting, rewarding and exciting journey. We have participated in all the awards in predefined areas (APA) rounds and secured licence interests in each of them.

We have built a strong culture, based on short decision lines, a high level of competence, professionalism, and full interdisciplinary cooperation. From the start, our management group has consisted of 50 per cent men and women.

We prequalified as a licensee and completed the management buyout from Tullow Oil Norge in 2017, with Duva as our first development asset. Late that year, we also became a 10 per cent partner in the producing Valhall and Hod fields and thereby advanced to being a full-cycle oil and gas company much earlier than planned.

In 2018, we secured a robust financial platform and continued developing our assets and adding to our portfolio. Our NOK 400 million bond loan was listed on the Nordic ABM in October that year.

The Duva plan for development and operation (PDO) was approved in 2019, and we chose to divest our 20 per cent interest in the field in November that year. Duva represented the core of our strategy – add value to high-quality assets and mature them up the development curve, in this case with an increase in recoverable resources of more than a 50 per cent since the initial discovery.

With this sale, we crystallised some of the value created in our portfolio to date, and further strengthened our capacity to take advantage of future opportunities on the NCS.

Great attention was paid in 2020 on managing Covid-19 impacts. Despite the comprehensive infection control measures, we succeeded in growing the



resource base through several discoveries. Our 20-per-cent interest in the Slagugle discovery was the largest addition to our reserve base and also the biggest discovery on the NCS that year.

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).

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This made it possible for the Hod field redevelopment to become the first project realised under the temporary tax changes. A PDO for Hod, where we hold a 10 per cent equity interest, was submitted in June 2020 and approved that December.

Looking back, our first five years have been an interesting, rewarding and exciting journey.

Another Covid year

Throughout 2021, we continued to monitor the Covid-19 situation closely 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 also continued to be implemented to ensure safe and reliable operations.

Despite the infection control measures, 2021 was a year with several positive developments for us. Once again, I would like to extend my thanks to our team for the way it has tackled these challenging times, demonstrating professionalism, dedication and flexibility.

In January 2022, we were happy to announce the award of three licences in the 2021 APA round. In addition to expanding our exploration portfolio, we secured strategically important acreage adjacent to a

recent discovery which strengthens our position in an area where we see further potential.

The Slagugle discovery was matured further during the year. This maintained the positive initial estimates, and further appraisal of Slagugle is on schedule. A new appraisal well was spudded early in March 2022 and the results are expected in the second quarter.

Estimated reserves in the Iving discovery have been downscaled this year, and this asset has consequently reverted to being regarded as an exploration licence.

Further development of the Valhall area

The Valhall area continues to develop well, with three new infill wells sanctioned and drilled to deliver the expected results.

An important milestone in revitalising this area was reached in August, when the Hod B platform was installed on the field at the southern end of Norway's North Sea sector. This occurred just 14 months after the first steel was cut at Kværner's yard in Verdal. The platform was delivered on schedule with a high level of quality and with no harm to people or the environment.

We have built a strong culture, based on short decision lines, a high level of competence, professionalism, and full interdisciplinary cooperation.

This impressive delivery is very much in line with the ability of the operator, Aker BP and its alliance partners to execute fabrication projects.

In December, the Valhall licence continued bringing forward a joint development concept for a new central platform (NCP) together with the King Lear licence. This project will help to extend production life in and increase value creation from the Valhall area. The NCP development is expected to come on stream in 2027 and will imply a longer producing life for the huge Valhall area.

Towards net zero carbon

We launched our strategy for achieving net zero carbon emissions in January and became one of the first E&P companies to achieve carbon neutrality in 2020 for scopes 1 and 2 emissions.

We recognise that climate change is of critical importance to the future of the planet and support the goal of the Paris agreement to achieve a carbon-neutral global economy. The energy transition will inevitably have an impact on the E&P industry of the future and we will concentrate our attention on maintaining our low carbon footprint to meet this trend. Despite having one of the lowest CO₂ intensities on the NCS and in the global E&P industry, we still recognise the importance of further minimising our carbon impact as swiftly as possible.

In 2021, the CO₂ intensity of our production from Valhall and Hod was 1.5 kg CO₂e/boe. Our commitment to carbon neutrality has initially been achieved by offsetting CO₂ emissions through programmes aligned with the UN sustainable

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development goals. The offsetting market is still immature, and we will monitor and review our offsetting strategy in the time to come.

In this year’s report, we are aligning our sustainability reporting with the recommendations of the task force on climate-related financial disclosures (TCFD).

We aligned our management system, investment criteria and operational tools with the net zero carbon strategy throughout the year, and established a CO₂ accounting system for our equity-based emissions. We will be putting increased emphasis on mapping our indirect GHG emissions under equity-based scope 3. As a licensee, we are reliant on working closely with the operators on emission reduction, and are pleased to see the strategic priority given to reducing scope 3 emission among our operator partners.

Launching Wellify

In July, we officially launched Wellify, a new digital visualisation tool for analysing geochemical and mineralogical data from drill cuttings. These data contain valuable information for companies exploring for oil and gas, and can be further utilised to improve efficiency and safety in drilling operations. The Wellify tool can also potentially be utilised to identify reservoir zones suitable for CO₂ storage.

Wellify is the first product from Cuttings Insight, a non-commercial collaboration project we initiated in 2020 with DNO Norge AS and Spirit Energy Norway AS as partners and Itera ASA as the technical provider. The launch of Wellify marked the end of a successful development and test period. The product is now in daily use with all three companies, demonstrating the

rapid acceptance of new digital solutions when these are user driven.

Outlook

We are entering 2022 with a strong balance sheet which permits further merger and acquisition activities. We remain committed to our strategy of being an active, responsible partner and a full-cycle oil and gas company with long-term ambitions.

We are entering 2022 with a strong balance sheet which permits further merger and acquisition activities.

Operationally, 2022 looks set to be another exciting year for us, with participation in two exploration wells. This is in addition to a planned appraisal well on Slagugle. Hod is anticipated to come on stream during the first half, and a PDO is expected to be submitted for the NCP development before the end of the year.

In addition, we will work actively on integrating the ONE-Dyas assets and team into our portfolio.

In recent weeks, we have all been saddened by the acts of war taking place in the Ukraine. While the human suffering is clearly our main concern, we must also acknowledge that economic uncertainty may have an impact on our business and our markets going forward. This in spite of the immediate effects in increasing oil and gas prices.

Jan Christian Ellefsen
CEO

Valhall and Hod



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. Comprehensive modernisation of the area is underway, with tie-in of new flank platforms and removal of the old obsolete platforms enabling the ambition to produce another billion barrels in the future with minimal emissions.

The Valhall area consists of the Valhall and Hod fields in the southern part of the Norwegian sector in the North Sea.

Valhall

The Valhall field centre currently consists of five bridge-connected 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 produced oil is exported via pipeline to Ekofisk and on to Teesside, while the gas is exported via Norpipe to Emden in Germany.

Hod

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 wells on the Hod platform are shut in, and in recent years, this reservoir has been produced by wells drilled from the Valhall Flank South platform.

A PDO for Hod was approved by the Ministry of Petroleum and Energy in late 2020. This was one of the first development projects to be realised under the temporary changes made to the Norwegian Petroleum Tax Act in June 2020 following the Covid-19 outbreak. The field has been redeveloped with a NUI, Hod B, utilizing the same concept, alliance partners and execution model as the Valhall Flank West project, which was successfully completed and installed on the field in 2019.

Both jacket and topsides were built at the Aker Solutions yard in Verdal, and were successfully installed on the field during the summer of 2021. The wellhead platform was delivered on schedule, with no harm to people or the environment.

Production drilling commenced during the last quarter of 2021. Production is scheduled to begin in the first half of 2022, expecting to produce 40 million barrels of oil equivalent. Hod B will be remotely operated from Valhall, and CO₂ emissions will be close to zero owing to the use of power from shore via the Valhall field centre.

CO₂ emissions intensity amongst the lowest on the NCS

The Valhall area has been powered from shore since 2012, originally eliminating annual turbine emissions of approximately 320,000 tonnes of CO₂ and 600 tonnes of NO_x. The field centre also supplies power to the remotely operated flank platforms and Hod B, with close to zero CO₂ emissions during normal operations, and can also accommodate long-term rig hires with electricity. The CO₂ emissions intensity from the Valhall and Hod fields in 2020 was 1.5 kilograms CO₂ per barrel of oil equivalent (boe).

Performance in 2021

Gross production from Valhall and Hod averaged 51,600 barrels of oil equivalent per day (boepd) in 2021, down from an average of 56,400 boepd in 2020. The decrease was mainly attributable to reduced production efficiency during first part of the year due to several shutdowns and operational challenges with wells. All wells were repaired and put on stream. The facility uptime was more than 98 per cent during autumn, while production efficiency for the full year was 82 per cent, compared with 86 per cent in 2020.

Modernisation of the area

In 2021, the quarter platform (QP) jacket was removed from the field centre and a campaign to plug abandoned wells on Valhall was completed, six years ahead of the original plan. In 2022, the old drilling platform (DP) and processing platform (PCP) will be removed from the field centre, and a final investment decision on permanent plugging and abandonment of the old Hod wells is expected in second quarter.

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At the end of 2021, the joint venture decided to proceed with the chosen concept for a new central platform (NCP) and a combined development with King Lear. The concept consists of a new process and wellhead platform with a bridge connection to the Valhall field centre, and an unmanned platform on King Lear around 50 kilometres from the centre. New infrastructure will be laid on the seabed to connect the two fields. The plan is to link the new installations to the existing power-from-shore solution. Further maturing will now follow through the front-end engineering design (Feed) phase up to a final investment decision, with the PDO due to be submitted in the fourth quarter of 2022.

The NCP will allow long-term production from Valhall and Hod and support the joint venture’s ambition to produce a second billion barrels from these fields.

PL006 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
Area	231.5 km2

Licence overview



PL 263 D/E/F/G*

Location	Norwegian Sea
Block(s)	6407/1, 6407/2, 6507/10
Pandion Energy interest	20%
Operator	Equinor Energy AS (51%)
Other partners	ONE-Dyas Norge AS (29%)
Awarded	02.03.2018 (D), 01.11.2019 (E), 19.02.2021 (F)
Area	105.1 km²

*Extension awarded in 2022

PL 820 S/SB

Location	North Sea
Block(s)	25/7, 25/8
Pandion Energy interest	12.5%
Operator	MOL Norge AS (40%)
Other partners	Lundin Energy Norway AS (41%)
Wintershall Dea Norge AS	(6.5%)
Awarded	05.02.2016, 19.02.2021 (SB)
Area	58.1 km²

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

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%) Lundin Energy Norway AS (10%) DNO Norge AS (10%)
Awarded	02.03.2018
Area	285.7 km²

PL 938

Location	Norwegian Sea
Block(s)	6407/8
Pandion Energy interest	20%
Operator	OKEA ASA (30%)
Other partners	Neptune Energy Norge AS (30%) Vår Energy AS (20%)
Awarded	02.03.2018
Area	56.7 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	01.03.2019
Area	202.4 km²

* Relinquished in 2022

PL 1062*

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

* Relinquished in 2022

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

Licence overview



PL 1119

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

PL 1139**

Location	North Sea
Block(s)	15/6
Pandion Energy interest	20%
Operator	Lundin Energy Norway AS (40%)
Other partners	Vår Energy AS (20%) Sval Energy AS (20%)
Awarded	11.03.2022
Area	70 km²
**Awarded in 2022	

PL 1166**

Location	Norwegian Sea
Block(s)	6507/8, 6507/9
Pandion Energy interest	30%
Operator	ConocoPhillips Skandinavia AS (70%)
Other partners	-
Awarded	11.03.2022
Area	73 km²
**Awarded in 2022	

PL 891/B
PL 1166
PL 1062
PL 263 D/E/F/G
PL 1119
PL 938

PL 929
PL 1108
PL 1047
PL 985
PL 820 S/SB
PL 1139

VALHALL & HOD
PL 006 B
PL 033 B
PL 033

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 E&P 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.

The board of directors



Anish Patel
Non-executive director

Anish Patel is a partner and a senior member of the Investment and portfolio management team at Kerogen. He has over 15 years’ experience in investments and corporate finance in the energy industry. He joined Kerogen in 2011 and has worked on several of the firm’s largest investments to date. He formerly worked in J.P. Morgan Cazenove’s Investment Banking group in London.



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.

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 E&P 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 oil and gas and other industries. She initially qualified as a senior auditor at Arthur Andersen.

The management team



Bente Flakstad Vold
VP Exploration & Appraisal
MSc Applied Geophysics

Bente Flakstad Vold has 25 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 more than 15 years of experience holding various advisory and managerial positions in health, safety, the environment and quality for the oil and gas industry on the NCS. 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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Directors' Report

Pandion Energy entered its fifth year as an independent, full-cycle oil and gas company in 2021. Since its establishment in late 2016, the company has participated in the discovery and production of oil and gas resources on the Norwegian continental shelf (NCS).

What started out as a management buyout of a single development project from Tullow Oil Norge in June 2017, followed by the acquisition of a 10 per cent interest in the producing fields Valhall & Hod in December 2017, has today become a company with daily production of over 5 000 barrels of oil equivalents, a total of 14 licences and a team of 25 highly experienced oil and gas professionals headquartered in Oslo, Norway.

During 2021, the board's priorities revolved around ensuring further development of the Valhall & Hod fields, which included the execution of Hod development, with first oil expected in the second quarter of 2022, and Valhall new central platform (NCP) joint development concept with King Lear (production licences PL 146 and PL 333). On the exploration and appraisal front, following the oil and gas discoveries in PL 820S Iving and PL 891 Slagugle in 2020, the appraisal of the Iving discovery was concluded non-commercial. The Slagugle discovery will be appraised in 2022, with the aim of developing the discovery. Lastly, in January 2021, Pandion Energy became one of the first E&P companies on the NCS to achieve carbon neutrality for CO₂ emissions in scopes 1 and 2 and launched its strategy to net zero carbon.

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.



HIGHLIGHTS OF 2021

The company's revenues from the sale of oil and gas increased by 80 per cent to USD 137.9 million from 2020 to 2021, driven by the increase in realised oil and gas prices.

Pandion Energy became one of the first E&P companies on the NCS to achieve carbon neutrality for CO₂ emissions in scopes 1 and 2, and announced its strategy to net zero carbon. The commitment to carbon neutrality has been achieved through low carbon intensity production and by carbon offset programs aligned with the UN sustainable development goals (SDGs).

The Hod B platform, a new normally unmanned installation (NUI), was safely installed on the Hod field in August, just 14 months after the first steel was cut at Kværner's yard in Verdal. Hod B will be operated remotely from Valhall, and the field will have close to zero CO₂ emissions owing to the use of power from shore.

The Valhall licence made progress with a joint development concept together with King Lear involving a new central platform, which will help to extend the producing life of

and increase value creation from the Valhall area. The final investment decision and submission of the plan for development and operation (PDO) is planned for late 2022, in time to be covered by the temporary tax scheme. First oil is scheduled for 2027.

Pandion Energy was awarded three new licenses under the 2021 Norwegian awards in predefined areas (APA) licensing round. Strategically important acreages adjacent to existing discoveries was secured, further strengthening access to additional upside potential in these areas.

The company continued to progress on digitalisation of operations, and launched Wellify in July, a new digital tool for analysing geochemical and mineralogical data from drill cuttings. Wellify is a product from Cutting Insights, a collaboration project initiated by Pandion Energy in 2020 with DNO Norge and Spirit Energy Norway as partners and Itera as technical provider.

Lastly, the company continued to monitor the Covid-19 position closely during 2021 with the aim of protecting staff and operations.

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On 31 December 2021, 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 10 exploration licences.

In January 2022, Pandion Energy was awarded three licences under the 2021 APA licensing round on the NCS. Two were new licences and the third provided additional acreage for an existing licence in the portfolio. Following these awards (PL 1139, PL 1166 and PL 263G), the company held interests in a total of 14 licenses.

The portfolio includes 32 million barrels of oil equivalent (mmboe) of net proven and probable (2P) reserves and 47 mmboe of net contingent resources (2C), including reported estimates for the PL 891 Slagugle discovery.

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 driving value in high-quality assets.

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.

Since its inception, Pandion Energy has been committed to maintaining a low carbon footprint – as demonstrated by carbon intensity levels per barrel which are amongst the lowest in the Norwegian and global E&P industry, at 1.5 kilograms of CO₂ per barrel of oil equivalent in 2021. In 2021, Pandion Energy launched its strategy to achieve net zero carbon emissions. This includes pursuing exploration and appraisal opportunities only in areas with existing or plausible future access to renewable energy sources, incorporating greenhouse gas (GHG) emissions and the potential for future carbon reduction as a key investment criterion for developments and producing assets, and incorporating the future cost of carbon emissions when evaluating new investments.

OPERATIONAL REVIEW

Production and field development

The Valhall area consists of the Valhall and Hod fields in the southern part of the Norwegian sector in the North Sea, and has produced over one billion barrels since production started in 1982. Infrastructure on Valhall comprises a field centre with five bridge-connected platforms. In addition come three unmanned flank platforms (North, South and West). The produced oil is exported via pipeline to Ekofisk and on to Teesside in the UK, while the gas is exported via Norpipe to Emden in Germany. The original Hod development produced from 1990 to 2012 via a remotely operated wellhead platform tied back to Valhall. All wells on the Hod platform are shut in and the Hod plug and abandonment (P&A) project, which covers the permanent P&A of eight wells, has passed decision gate 2 (DG2). A final investment decision is expected in the second quarter of 2022. In recent years, Hod has been produced by wells drilled from the Valhall Flank South platform. The Valhall area has received power from shore since 2012 via Lista in the south of Norway, which keeps emissions to the air very low during normal operations. Pandion Energy holds a 10 per cent interest in the Valhall area, where Aker BP is operator.

A PDO for Hod was approved by the Ministry of Petroleum and Energy in late 2020. This was one of the first development projects to be realised under the temporary changes made to the Norwegian Petroleum Tax Act in June 2020 following the Covid-19 outbreak. The field has been redeveloped with a NUI, Hod B, delivered through operator Aker BP’s alliance for the provision of fixed platforms. This project was estimated to create around 5 000 full-time equivalents during the execution phase, and 75 per cent of the contract value for construction of the platform and subsea installations has gone to Norwegian suppliers.

Both jacket and topsides were built at the Aker Solutions yard in Verdal, and were successfully installed on the field during the summer of 2021. The wellhead platform was delivered on schedule, with no harm to people or the environment. Hod B will be remotely operated from Valhall, and CO₂ emissions will be close to zero owing to the use of power from shore via the Valhall field centre. Production drilling commenced during the last quarter of 2021. Production is scheduled to begin in the first half of 2022.

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In December, the joint venture decided to proceed with the chosen concept for a new central platform (NCP) and a combined development with King Lear. The concept consists of a new process and wellhead platform with a bridge connection to the Valhall field centre, and an unmanned platform on King Lear around 50 kilometres from the centre. New infrastructure will be laid on the seabed to connect the two fields. The plan is to link the new installations to the existing power-from-shore solution. Further maturing will now follow through the front-end engineering design (Feed) phase up to a final investment decision, with the PDO due to be submitted in the fourth quarter of 2022. First production from the development is planned in 2027.

The NCP will allow long-term production from Valhall and Hod and support the joint venture's ambition to produce a second billion barrels from these fields.

Appraisal

Appraisal drilling on the Iving oil and gas discovery in PLs 820 S and SB (Pandion interest: 12.5 per cent) was completed in July by operator MOL Norge AS. The results lead to a downward adjustment of the resource estimate. After evaluating the feasibility of a development, the project was assessed as non-commercial. Capitalised costs in the licence have been expensed with 29.9 USD million.

The partners in PL 891 prepared to appraise the Slagugle discovery, made in 2020, and secured the semi-submersible mobile drilling rig Transocean Norge. Operator ConocoPhillips spudded appraisal well 6507/5-11 in March 2022, and is also targeting additional prospectivity.

Exploration

In January 2021, Pandion Energy was awarded the following five licences under the 2020 Norwegian APA licensing round on the NCS:

- 30 per cent participatory interest in licence PL 1108, located on the Måløy slope west of the Gjøa field and north-east of the Nova field. Pandion Energy has considerable experience in this area, including the Duva field development project.
- 20 per cent in licence PL 1119, located in the central part of the Halten Terrace, adjacent to the Tyrihans Sør, Trestakk and Lavrans fields as well as multiple discoveries.

- 20 per cent in licence PL 263 F, additional acreage for PL 263 D/E located in the Norwegian Sea. The PL263 D/E licence announced a gas discovery in exploration well 6407/1-8 S in November 2020.
- 12.5 per cent in licence PL 820 SB, additional acreage to PL 820 S where the Iving discovery has been made.
- 20 per cent in licence PL 891 B, additional acreage to PL 891, located in the central Norwegian Sea north of Heidrun, which contains the Slagugle discovery announced in December 2020.

An exploration well was drilled in early 2021 on the Eidsvoll prospect in PL 617. This was reported dry, and the licence was relinquished in December. The acreage formed part of a transaction with Wintershall Dea Norge AS, completed in February 2021, on acquiring a 2.5 per cent interest in PL 820 S and a 15 per cent holding in PL 617.

During 2021, the PL 929 and PL 938 joint ventures, both operated by Neptune Energy, secured the semi-submersible mobile drilling rig Deepsea Yantai to drill exploration wells in 2022. Pandion Energy holds a 20 per cent interest in both licences.

Relinquishment decisions have been taken for PL 1047 and PL 1062 and will be implemented during the first quarter of 2022.

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 several 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 on 31 December 2021.

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 with

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regulations on 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 2021 amounted to USD 135.9 million (2020: USD 116.6 million) and comprised net sales of oil and gas and gain/loss from hedging positions.

The increase in revenue mainly reflected higher commodity prices combined with larger crude oil volumes sold during the fiscal year. Net sales of oil and gas for the year amounted to USD 137.9 million (2020: USD 76.7 million).

Before hedging, the average price achieved by Pandion Energy in 2021 for its net sales of oil and gas was USD 68.6 (2020: USD 39.4) per boe. This was consistent with Brent benchmark movements.

Average net production for Pandion Energy was 5 152 boe per day (boepd), compared with an average of 5 639 boepd in 2020. The reduction in produced volumes was a result of planned downtime related to chalk influx in several wells necessitating well intervention activities. Average net sales for Pandion Energy amounted to 5 516 boepd (2020: 5 313 boepd). Sales quantities during a period can differ from production quantities, mainly because of differences in the timing of cargo liftings compared with production (inventory movements).

A loss of USD 2 million (2020: gain of USD 4.6 million) on other income for the year related to losses from hedging positions owing to the rise in crude oil prices during 2021.

Expenses

Operating expenses including inventory movements amounted to USD 35.1 million for 2021, significantly higher than the 2020 level of USD 27.4 million. This increase is mainly attributable to inventory movements. Valued at production costs including tariffs and depreciation costs, the change in inventory amounted to an expense of USD 3.2 million (2020: benefit of USD 2.9 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 12 per boe (USD 10 per boe in 2020), with the increase mainly attributable to lower production from the Valhall and Hod.

Exploration expenses in the income statement for 2021 amounted to USD 44.7 million (2020: USD 20.9 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 comprise costs related to new-venture activities (licensing rounds, farm-in activities and digitalisation) and are detailed in Note 7. The increase in exploration expenses for 2021 is mainly attributable to the write-down of previously capitalised exploration expenditures related to the downward adjustment of the resource estimate for the PL 820 S lving discovery.

The company recorded net financial expenses of USD 16.9 million for 2021, compared with USD 16.2 million for 2020. Details are provided in Note 11. Net financial expenses mainly comprised interest expenses of USD 10.4 million (2020: USD 11.1 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 6.1 million (2020: USD 6.2 million) related to asset retirement obligations.

Results

The company generated a profit on operating activities of USD 23.5 million and an EBITDAX* of USD 100.8 million in 2021, up from a loss of USD 22.7 million and an EBITDAX* of USD 89.6 million (which included USD 35.3 million gain from sale of assets) respectively the year before. The increase from 2020 mainly reflected higher oil prices and sales volumes during the year. An impairment of technical goodwill amounting to USD 61.6 million was also recognised in 2020.

Pandion Energy recorded a profit before income tax of USD 6.6 million for 2021, compared with a loss before income tax of USD 38.8 million the year before. Income tax expense amounted to USD 1.3 million for the year, compared to an income tax benefit of USD 29.4 million in 2020. This resulted in a net profit of USD 5.3 million for 2021 (2020: net loss of USD 9.4 million).

* For definitions of Alternative Performance Measures (APM), please refer to page 59.

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Statement of financial position

The company's total assets at 31 December 2021 amounted to USD 615.5 million (2020: USD 566.7 million).

Property, plant and equipment came to USD 428.5 million (2020: USD 345.3 million), an increase of USD 83.2 million driven by investments in Valhall and Hod – mainly drilling and well stimulation on the north and west flanks and the redevelopment of Hod.

Intangible assets and goodwill amounted at 31 December to USD 106.1 million (2020: USD 121.1 million). The reduction from 2020 mainly reflected the write-down of previously capitalised exploration expenditures related to PL 820 S Iving.

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 5.2 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. Pandion Energy intends to refinance the bond in full before the autumn of 2022. The current borrowing base in the RBL facility is USD 150 million. The EFF was drawn until 31 December 2021, with repayment in the fourth quarter of 2022. More details of debt financing are provided in Note 17.

Total equity at 31 December 2021 was USD 133.2 million, up from USD 126.3 million a year earlier. The equity ratio at 31 December 2021 was 21.6 per cent. The company's share capital was reduced by USD 103.1 million to USD 11.1 million on 3 November 2021 through a reduction in the par value of its shares. The share capital reduction will be applied as an allocation to funds. At 31 December 2021, finalisation of the reduction was awaiting the expiry of the creditor notice period.

The company's interest-bearing debt was USD 135.8 million at 31 December 2021, down from USD 157.6 million a year earlier. See Note 17.

Temporary tax changes to stimulate investment in the petroleum sector were sanctioned by the Storting (parliament) on 12 June 2020 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 net refunds of USD 42.4 million related to tax instalments in 2021.

The Norwegian government has furthermore proposed revisions to the special petroleum tax (SPT) system in 2022. This will replace the rules on depreciation and uplift with immediate investment expensing (cash-flow tax), although the combined rate of corporation tax and SPT will remain unchanged at 78 per cent. The changes are expected to be introduced early Spring 2022 (effective from January 1, 2022). The main intention of the proposed revision is to improve the neutrality of the tax system in value terms. Where Pandion Energy is concerned, the expected new tax rules will increase near-term cash flow owing to accelerated capex depreciation and the annual refund of special petroleum tax losses. These changes have no implications for the rules concerning the temporary changes described above.

Cash flow statement

Net cash flow from operating activities in 2021 was USD 151.8 million, up from USD 71.5 million in 2020. This increase was primarily driven by higher revenues. The difference between cash flow and profit from operating activities mainly reflects the effect of depreciation, amortisation and net impairment losses, and tax refund received.

Investing activities in 2021 involved a net cash outflow of USD 127.3 million, compared with USD 50.8 million the year before. The higher net cash outflow in 2021 mainly reflects increased investment activities in 2021 (related to further development of the Valhall and Hod area, mainly the Valhall Flank West project, the Flank North infill and the Hod redevelopment), and the cash inflow related to the Duva field divestment in 2020.

Net cash flow from financing activities during 2021 was negative at USD 19.5 million (2020: USD 50.4 million). This figure comprises (i) the RBL facility repayment of USD 16.5 million and (ii) the net EFF repayment of USD 3 million.

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Cash and cash equivalents increased by USD 5.0 million during 2021 to USD 21.8 million at 31 December.

Subsequent events

In January 2022, Pandion Energy AS was awarded three licences under the 2021 APA licensing round on the NCS. The areas awarded include two new licences, PL 1139 (20 per cent participatory interest) and PL 1166 (30 per cent participatory interest), with the latter due to be matured alongside PL 891 where the partnership is currently drilling its first appraisal well on the Slagugle discovery made in 2020. One licence was also awarded to provide additional acreage for PLs 263 D/E/F, which is already in the portfolio.

In March 2022, the company announced signing an agreement with ONE-Dyas Holdings B.V. to acquire ONE-Dyas Norge AS. The transaction includes a 10 per cent share of the Nova field, operated by Wintershall Dea, and a total of 10 exploration licences, including increased interest in PLs 263 D/E/F which is already in the portfolio.

The Nova field is expected to start production in the second half of 2022. The field, located in the northern part of the North Sea, is being developed with two subsea templates tied back to the existing Gjøa platform. Nova (previously Skarfjell) was discovered in 2012, and the PDO was approved in 2018. The use of existing infrastructure enables effective extraction of the resources and Nova will be sustainably operated with hydro power from shore through Gjøa.

The transaction is subject to customary conditions for completion, including but not limited to approval by the Norwegian Ministry of Petroleum and Energy.

Following the Russian invasion of Ukraine at the end of February, the board notes the implications for commodity prices and potential interruptions of supply chains and third-party services. Several countries have condemned the invasion and severe sanctions have been imposed. While the human suffering is clearly the main concern, the board must acknowledge that economic uncertainty, despite no direct exposure to the regions or sanctions, may have an impact on the company’s business and its markets going forward. The extent to which the invasion impacts the company’s results will depend on future developments, which are highly uncertain and difficult

to predict, including new information which may emerge on an ongoing basis. Pandion Energy is committed to complying with relevant sanctions and trade control legislation and is monitoring the development in order to mitigate the potential impact on the company’s operations.

ALLOCATION OF NET PROFIT/LOSS

Pandion Energy AS recorded a net profit of USD 6.9 million for fiscal 2021. The board proposes to allocate the net profit to 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 experience.

The board of Pandion Energy works with the company to develop risk management strategies and processes which enable management to prevent potential events and to handle them efficiently. The board is also responsible for overseeing the implementation of such strategies 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.

Directors’ and officers’ liability insurance has been secured by the company to cover possible personal liability of a director or the CEO in accordance with applicable law.

Covid-19 measures and consequences

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

The company is not an operator and is not directly involved in the execution of offshore operations on a day-to day basis. However, as the sole partner of the operator for Valhall and Hod, it pursues an active dialogue with the latter to ensure that all necessary steps are taken to protect offshore personnel against the pandemic

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and that the virus has minimal impact on operations. Extensive measures have been implemented by the operator to ensure safe and reliable operations.

In addition to operations on Valhall and Hod, the company has been involved in exploration and appraisal activities. No virus-related disruptions to drilling operations were reported during the year.

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 reserves and to develop them.

The risk of major operational incidents is always present, since drilling, production and decommissioning activities will never be completely risk-free. In addition, come risks associated with the integrity of the company’s assets, the reported reserves and resources, and 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 licensee 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 with operators and has established processes and mitigating measures to reduce the probability of operational incidents. The company’s risk management also 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 may therefore affect its revenue. Commodity price risks represent the company’s most important market risk for the future. 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 among market players on investing 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 runs from 1 December 2021 until the end of 2022. At 31 December 2021, the hedging programme was solely based on put options.

On 31 December 2021, 54 per cent of after-tax (15 per cent of pre-tax) crude oil production volumes had been hedged for January–December 2022 at an average floor price of USD 47.6 per boe (USD 44.6 per boe net of costs). Additional positions may be added to the programme in the future. However, 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 in Pandion Energy. The company is exposed to foreign exchange risk on its purchases and sales, including financing costs denominated in currencies other than the USD. Although the company prefers to raise funding in USD, the senior unsecured bond raised in 2018 was in NOK owing to market considerations. To mitigate the currency risk arising from debt issuance,

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the company has entered 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 the 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 the NOK is the main currency. To reduce the risk related to the 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 with floating interest rates expose the company to interest-rate risk. The company has entered into interest-rate swaps to mitigate the risk arising from the variable interest rate payable on the unsecured bond.

Liquidity risk

Pandion Energy'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 be unable 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 risk of fluctuations in commodity prices is addressed under financial risks, but the company also faces other external risks which could affect its financial position over time. There can be no assurance, for instance, that legislation, including tax regulations, will not change 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 risks related to the anticipated transition to a lower-carbon economy. This is likely to affect both market fluctuations and behaviour as well as associated financial risks, and external risks related to regulatory and policy changes, for instance – whether directly through costs and taxes or indirectly from technology developments. In addition, negative public opinion about oil and gas companies may have reputational effects.

In the long term, the company's assets may become exposed to physical climate risk. These include an increase in the frequency or strength of extreme 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.

In order to minimise the exposure to climate change risk, Pandion Energy has committed to sustaining its low-carbon-impact position in the industry and to remain carbon neutral. In January 2021, the company launched its strategy for net zero carbon. A key part of this strategy involves aligning the company's investment criteria to ensure that new growth opportunities are evaluated with regard to CO₂ aspects and climate change risk in order to sustain a resilient asset portfolio.

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 which aim to minimise the impact on the environment.

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A comprehensive HSE management system has been established by the company. This calls for competent employees and contractors to deliver compliant operations through rigorous planning and execution. It also provides a system for effective risk management. Technical, economic and HSE considerations are an integrated part of Pandion Energy's decision-making and operational processes to achieve the 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 probability 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.

During 2021, the board established an environmental, social and governance (ESG) committee which is responsible for ensuring that ESG risks and opportunities (including impacts on the community, climate change and environment) are proactively identified and addressed at appropriate levels in the company's risk management activities. The ESG committee is also responsible for ensuring that the company's policies and practices are in alignment with its values, purposes and culture, and for integrating climate change and other sustainability factors in the company's strategy and business plan.

Pandion Energy has no operated assets in its portfolio, and the company works closely with the operators of its assets to identify, control and monitor risks. It provides a proactive and constructive challenge to the HSE policies, procedures and activities of the operators.

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 a variety of categories – HSEQ and regulatory compliance, major accident risk, joint ventures, subsurface, production, operations, drilling and wells, technology, facilities, project execution, organisation, commercial activities and incidents. Detailed action plans are established for each identified follow-up item 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).

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

In 2020, Pandion Energy was one of the first E&P companies on the NCS to achieve carbon neutrality for scopes 1 and 2 emissions, as defined in the GHG protocol. The company launched its strategy to net zero carbon in 2021.

The Valhall and Hod fields receive hydropower from shore, producing some of the lowest CO₂ intensities in the E&P industry. In 2021, the CO₂ intensity on Valhall and Hod was 1.5 kilograms of CO₂ per boe produced. All the company's current exploration and appraisal licences fulfil the criteria set in the strategy to net zero carbon, being located in areas with existing or plausible future access to renewable energy sources. The company's equity-based GHG emissions in scopes 1 and 2 from activities in 2021 are reported in the sustainability section of the combined annual report.

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.

The company is currently owned by funds managed by Kerogen Capital and by the management team. The company has a bond listed on the Nordic alternative bond market (Nordic ABM), a list of registered bonds which the Oslo Stock Exchange (Oslo Børs) determines the rules for 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.

This year, the company includes sustainability result in its annual report.

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RESEARCH AND DEVELOPMENT

The company invested USD 3.0 million (2020: USD 4.6 million) in research and development in 2021.

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 visualisation, data science and machine learning can provide increased understanding of subsurface data and make analysis of geological and geophysical information more efficient.

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 Energy is a non-operator licensee, and all payments by non-operators in licences will be cash calls transferred to the operator. As such, no payments will be made to governments by Pandion Energy.

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

ORGANISATION

At 31 December 2021, the company had 25 employees compared with 26 a year earlier. The working environment in Pandion Energy is considered good. Sickness absence in 2021 was 1.38 per cent compared with 2.44 per cent the year before. Since Pandion Energy has relatively few employees, sickness absence by just one or two people could significantly affect the percentage.

Pandion Energy seeks to keep sickness absence at low levels by constantly improving working conditions. The company aims to maintain a working environment with equal opportunities for all, based on performance and irrespective of gender, age, religion, ethnicity, sexual orientation, disability or any other protected status.

On 31 December 2021, 36 per cent of the employees were female, compared with 38 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

Following the announcement of the ONE-Dyas Norge acquisition in March 2022, much attention will be dedicated to integrating the operational and organisational assets of the combined entities on completion. Pandion Energy has a robust capital structure and a strong balance sheet, which allows for further merger and acquisition (M&A) activities in the future. The company is entering 2022 with USD 190 million committed from Kerogen Capital, of which USD 109 million had been injected at 31 December 2021. The company is also in the process of refinancing its bond loan in the second quarter.

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Operationally, delivering on production targets and driving value creation in the Valhall and Hod fields continues to be a strong priority for Pandion Energy and the board. Important milestones will include the production start from Hod B and further maturing of the plans for the NCP joint development with King Lear towards a PDO. The company will proceed with the appraisal of the Slagugle discovery and is scheduled to participate in two exploration wells during 2022. First production from Nova is anticipated at the end of 2022.

Pandion Energy will continue to invest in proven high-quality assets with access to existing infrastructure while aiming to maintain a low carbon footprint.

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

on the NCS, participating in every phase from exploration through to the development of oil and gas resources. As part of this objective, 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 to realise value created in its existing portfolio.

The ongoing invasion of Ukraine has dramatic consequences which cannot be seen to the full extent at the time of writing this report. Beyond the devastating human suffering, consequences to the world economy and markets are likely to be expected. Pandion Energy is committed to complying with relevant sanctions and trade control legislation and will be monitoring the development in order to mitigate the potential impact on the company's operations.

Oslo, Norway, 7 April 2022

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

Anish Patel
Board Member

Helge Larssen Nordtorp
Board Member

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We confirm, to the best of our knowledge, that the financial statements for the period from 1 January to 31 December 2021 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 results 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, 7 April 2022

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Statement of income



Statement of income

(USD `000)	Note	2021	2020
Revenues		137,939	76,675
Gains from sale of assets		-	35,341
Other income		(2,016)	4,554
Total revenues and income	6	135,922	116,570
Operating expenses	7	(35,137)	(27,436)
Depreciation, amortisation and net impairment losses	13, 14	(32,521)	(90,941)
Exploration expenses	7	(44,731)	(20,878)
Total expenses		(112,390)	(139,255)
Profit (loss) from operating activities		23,533	(22,685)
Net financial items	11	(16,917)	(16,159)
Profit (loss) before income tax		6,616	(38,844)
Income tax	12	(1,321)	29,411
Net income (loss)		5,295	(9,433)

Statement of comprehensive income

(USD `000)	Note	2021	2020
Net income (loss)		5,295	(9,433)
<i>Items that may be subsequently reclassified to the Statement of income</i>			
Net gain (loss) arising from hedges recognised in OCI	23	(1,332)	(644)
Net amount reclassified to profit and loss	23	3,393	603
Tax on items recognised over OCI	12, 23	(453)	9
Other comprehensive income		1,607	(32)
Total comprehensive income		6,902	(9,465)

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Statement of financial position



Assets

(USD `000)	Note	2021	2020
Goodwill	14	63,138	63,138
Intangible assets	14	42,933	57,984
Property, plant and equipment	13	428,526	345,298
Prepayments and financial receivables		136	140
Right-of-use assets	24	506	731
Total non-current assets		535,239	467,291
Inventories		8,394	9,376
Trade and other receivables	18	21,325	13,805
Financial assets at fair value through profit or loss	21	222	2,451
Tax receivable - short term	12	28,501	56,891
Cash and cash equivalents	9	21,839	16,846
Total current assets		80,279	99,369
Total assets		615,519	566,660

Equity and liabilities

(USD `000)	Note	2021	2020
Share capital		11,110	114,230
Other paid-in capital		103,120	-
Other equity		18,966	12,064
Total equity	19	133,196	126,294
Deferred tax liability	12	124,431	73,783
Asset retirement obligations	20	181,362	160,936
Borrowings	17	44,889	127,501
Hedging derivatives	23	-	8,793
Long term lease debt	24	264	555
Total non-current liabilities		350,946	371,569
Asset retirement obligations - short term	20	10,099	12,737
Trade, other payables and provisions	22	27,904	31,024
Borrowings - short term	17	84,602	24,168
Hedging derivatives	23	8,064	-
Financial liabilities at fair value through profit or loss	21	468	653
Short term lease debt	24	240	215
Total current liabilities		131,377	68,798
Total liabilities		482,323	440,367
Total equity and liabilities		615,519	566,660

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Oslo, Norway, 7 April 2022

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Statement of cash flows



(USD `000)	Note	2021	2020
Income before tax		6,616	(38,844)
Depreciation, amortisation and net impairment losses	13, 14	32,585	91,018
Expensed capitalised exploration expenses	7	38,252	9,574
Accretion of asset removal liability	11, 20	6,098	6,176
(Gains) losses on sales of assets	6	-	(35,341)
Deferred tax liability on sale of assets	12	-	6,899
(Increase) decrease in value of financial assets		(265)	906
Net financial expenses	11	10,819	9,983
Interest and fees paid		(10,127)	(11,420)
(Increase) decrease in working capital		(8,341)	(17,612)
Net income tax received		76,181	50,158
Net cash flow from operating activities		151,817	71,498

(USD `000)	Note	2021	2020
Payment for removal and decommissioning of oil fields	20	(20,121)	(16,737)
Capital expenditures and investments in furniture, fixtures and office machines	13	(45)	(18)
Capital expenditures and investments in oil and gas assets	13	(80,140)	(62,995)
Capital expenditures and investments in exploration and evaluation assets	14	(27,018)	(30,482)
Cash flow from divestments	6	-	59,428
Net cash flow from investing activities		(127,325)	(50,805)
Proceeds from interest bearing obligations, loans and borrowing		28,463	42,676
Payments of interest bearing obligations, loans and borrowing		(47,963)	(93,818)
Proceeds from Capital Distribution		-	738
Net cash flow from financing activities		(19,500)	(50,404)
Net change in cash and cash equivalents		4,993	(29,711)
Cash and cash equivalents at the beginning of the period		16,846	46,557
Cash and cash equivalents at the end of the period		21,839	16,846

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NOTE 1 ORGANISATION

Pandion Energy AS («Pandion Energy» or «the company») was established in November 2016 on the basis of the operational platform and licenses acquired from 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 2021 were authorised for issue in accordance with a resolution of the Board of Directors («the Board») on 7 April 2022.

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 2021 compared to those followed in the financial statements for 2020.

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2021 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 exchange differences resulting from equity transactions 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.

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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.

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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 31.12.2021 and contributes to increase in deferred tax liabilities.

The Norwegian Government has further proposed to revise the Special Petroleum Tax (SPT) system, replacing the rules on depreciation and uplift with immediate expensing of capex (cash flow tax), although the combined tax-rate for corporation tax and SPT will remain unchanged at 78%. The changes are expected to be introduced early Spring 2022 (effective from January 1, 2022). The main intention with the proposal is to improve the neutrality of the tax system in value terms. Where Pandion Energy is concerned, the expected new tax rules will increase near-term cash flow owing to accelerated capex depreciation and the annual refund of special petroleum tax losses. These changes have no implication for the rules concerning the temporary changes described above.

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

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estimate of an asset retirement obligation, if any, exploration cost transferred from intangible assets and, for qualifying assets, borrowing costs.

Expenditure on major maintenance or repairs comprises the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset or part of an asset is replaced and it is probable that future economic benefits associated with the item will flow to the company, the expenditure is capitalised. Inspection and overhaul costs, associated with regularly scheduled major maintenance programmes planned and carried out at recurring intervals exceeding one year, are capitalised and amortised over the period to the next scheduled inspection and overhaul. All other maintenance costs are expensed as incurred. Oil and gas producing properties are depreciated individually using the unit-of-production (“UOP”) method as proved and probable developed reserves are produced. The rate of depreciation is equal to the ratio of oil and gas production for the period over the estimated remaining proved and probable reserves expected to be recovered at the beginning of the period. Any changes in the reserves estimate that affect unit-of-production calculations, are accounted for prospectively over the revised remaining reserves. Oil and gas producing assets are depreciated on a field level. Field in the course of development would not be amortised unit production from that field commence. The company includes undeveloped reserves (proved and probable reserves but not contingent resources) in the denominator, and consequently includes the future development expenditures necessary to bring those reserves into production in the basis for depreciation.

The estimated useful lives of property, plant and equipment are reviewed on an annual basis and changes in useful lives are accounted for prospectively. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in other income or operating expenses, respectively, in the period the item is derecognised.

Leases

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

The depreciation of ROU asset is recognised over the lease term, and interest expenses related to the lease liability are classified as financial items in the income statement.

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

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

ROU assets are measured at cost and include the amount of the initial measurement of lease liability, any lease payments made at or before the commencement date less any lease incentives received, any initial direct costs, and restoration costs. Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the income statement. Short-term leases are leases with a lease term of 12 months or less and low-value assets comprise IT equipment and small items of office furniture. Pandion Energy is a non-operator and recognises its proportionate share of a lease when Pandion Energy is considered to share the primary responsibility for a licence committed liability. This includes contracts 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.

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.

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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

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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

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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.

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. 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.

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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.

Covid-19 measures and consequences

Pandion Energy is a non-operator and not directly involved in the execution of offshore operations on a day-to day basis. However, as partner in the Valhall & Hod fields the company has actively been in dialogue with the operator to ensure that all necessary steps were taken to protect offshore personnel against the pandemic and ensuring the virus had minimal impact on the operations. There were no disruptions to production due to the Covid-19 situation during 2021 and while certain project activities have been affected, the disruptions have been successfully managed to avoid any negative impact on the production outlook. The operator established during fall 2021 a normalisation plan towards a state where extraordinary measures were no longer required.

Except for the operations at Valhall & Hod fields, the company was during 2021 involved in other offshore activities by the drilling of one exploration well (PL 617) and appraisal wells in PL 820S. No virus-related disruptions to the drilling were reported.

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 2021 until the end of 2022. At year end 2021, the hedging programme is solely based on put options.

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At 31 December 2021, 54 per cent of after-tax (15 per cent of pre-tax) crude oil production volumes had been hedged for January–December 2022 at an average floor price of USD 47.6/ bbl (USD 44.6/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 2021:

Licence	Interest acquired
PL 617	15%
PL 820 S	2.5%

In 2021, Pandion Energy has undertaken a transaction with Wintershall Dea Norge AS to acquire 15% working interest in PL 617 and 2.5% working interest in PL 820 S with effective date 1 January 2021.

Acquired in 2020:

Licence	Interest acquired
PL 938	20%

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

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Disposal and relinquishment of licences

Disposals in 2021:

The company has not accounted for any disposals in 2021.

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.

Relinquishment in 2021:

Licence	Interest disposed
PL 617	15%
PL 1047	10%
PL 1062	30%

In 2021, the relinquishment of PL 617, PL 1047 and PL 1062 were accounted for due to licence decisions of relinquishment. The actual relinquishment of PL 1047 and PL 1062 took place in 2022.

Relinquishment in 2020:

The company has not accounted for any relinquishments in 2020.

NOTE 5 INTERESTS IN LICENCES

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

Licence source	Licence portfolio	Jan-22	Dec-21	Jan-21
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 %	12.5 %	12.5 %
Acquisitions/ APA 2020/APA 2021	PL 263 D/E/F/G (Appolonia)	20%	20%	20%
Acquisitions	PL 938	20%	20%	20%
Acquisitions	PL 617	0%	0%	15%
APA 2017	PL 929	20%	20%	20%
APA 2018	PL 985	20%	20%	20%
APA 2019	PL 1047	10%	10%	10%
APA 2019	PL 1062	30%	30%	30%
APA 2020	PL 1108	30%	30% 3	0%
APA 2020	PL 1119	20%	20%	20%
APA 2021	PL1139	20%	0%	0%
APA 2021	PL1166	30%	0%	0%

In January 2021, the company was awarded five licences in the APA 2020 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 increased 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 2022, Pandion Energy AS was awarded three licences under the 2021 APA (Award in Pre-defined Areas) licence round on the Norwegian Continental Shelf. That includes two new licences and one additional acreage in the licence already existing in the portfolio. In addition to expanding the exploration portfolio with two new licences Pandion Energy has, with the award of the additional acreage on PL 263, secured strategically important acreage adjoining Appolonia discovery the company has taken part in during 2020.

The company holds a total of 14 licences after the APA 2021 awards.

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NOTE 6 TOTAL REVENUES AND INCOME

Revenues	2021	2020
(USD '000)		
Oil	117,294	65,312
Gas	15,988	9,658
NGL	4,657	1,705
Total revenues	137,939	76,675

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

Other income	2021	2020
(USD '000)		
Realised gain/(loss) on oil derivatives	(2,202)	4,955
Unrealised gain/(loss) on oil derivatives	185	(401)
Total other income	(2,016)	4,554

Gains from sale of assets	2021	2020
(USD '000)		
Payment received	-	59,377
Net assets divested	-	(30,935)
Deferred tax	-	6,899
Gains from sale of assets	-	35,341

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.

NOTE 7 EXPLORATION AND OPERATING EXPENSES

Exploration expenses	2021	2020
(USD '000)		
Expensed cost, seismic and studies	175	3,434
Expensed cost, general and administrative	6,304	7,871
Expensed exploration expenditures previously capitalised	38,252	9,574
Total	44,731	20,878

Operating expenses	2021	2020
(USD '000)		
Production cost	22,967	20,577
Change in inventories	3,190	(2,899)
Tariff and transportation cost	7,210	6,883
Other cost	1,770	2,875
Total	35,137	27,436

NOTE 8 REMUNERATION

	2021	2020
(USD '000)		
Salaries	5,793	6,441
Social security tax	1,003	865
Pension expenses	502	451
Other remuneration	93	93
Total payroll expenses	7,390	7,849

The Company had an average of 25.3 employees in 2021, same as in 2020. The number of employees as of year-end was 25 compared to 26 at the end of 2020.

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 2021, the bonus will be disbursed in March 2022.

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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	2021	2020
(USD '000)		
Salaries	357	319
Bonuses	137	147
Pension expenses	21	19
Other remuneration	2	2

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 2021 and USD 50 000 in 2020.

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 0.72 per cent and 0.54 per cent of the shares in Pandion Energy AS, respectively.

NOTE 9 RESTRICTED BANK DEPOSITS

	2021	2020
(USD '000)		
Withheld employee taxes	317	355

NOTE 10 AUDITOR'S REMUNERATION

	2021	2020
(USD '000)		
Audit fee	73	51
Other attestation services	5	4
Other services	15	35
Total	93	91

NOTE 11 FINANCIAL ITEMS

	2021	2020
(USD '000)		
Net foreign exchange gains (losses)	1,008	(970)
Foreign exchange gains/losses on derivative financial instruments	32	2,451
Interest income	7	314
Amortised loan costs	(1,056)	(988)
Accretion expenses	(6,098)	(6,176)
Interest expenses	(10,391)	(11,057)
Other financial items	(420)	266
Net financial items	(16,917)	(16,159)

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NOTE 12 INCOME TAXES

	2021	2020
<i>(USD '000)</i>		
Tax receivable from exploration refund	(20,179)	(35,164)
Tax receivable from current year tax losses and uplift	(28,660)	(55,522)
Change deferred tax balance sheet	50,648	52,186
Change deferred tax from acquisition recorded directly to balance sheet or OCI	(453)	9
Deferred taxes recognised as part of gain from sale	-	6,899
Adjustments related to prior periods	(35)	2,181
Income tax	1,321	(29,411)
Income tax in OCI	453	(9)
Total income tax	1,774	(29,420)

Reconciliation of statutory tax rate to effective tax rate:

	2021	2020
<i>(USD '000)</i>		
Profit before income tax	6,616	(37,313)
<i>Calculated income taxes at:</i>		
Statutory tax rate 22% (22%)	1,455	(8,209)
Petroleum surtax at statutory tax rate 56% (56%)	3,705	(20,895)

Tax effect of:		
Tax effect related to sale or acquisition of oil and gas assets	-	(31,933)
Tax effect related to permant differences	(238)	(5,768)
Effect of items allocated onshore	7,052	(1,446)
Change in deferred tax related to financial items	235	616
Effect related to interest on loss carried forward	(123)	(108)
Uplift	(14,490)	(13,495)
Adjustments prior period	182	15
Deferred tax assets not recognised	280	2,541
Deferred tax recognised as part of gain from sale of assets	-	6,899
Impairment of technical goodwill	-	48,085
Translation differences	3,263	(5,713)
Total	1,321	(29,411)
Effective tax rate	20.0 %	78.8 %

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 2021, unrecognised future uplift credits related to capitalised cost amounted to USD 2.6 million.

The difference in effective tax rate in 2021 compared to the total statutory tax rate of 78 per cent is primarily related to permanent differences arising from uplift recognised in 2021 mainly related to the temporary changes in the petroleum tax regime and translation differences related to income taxes calculated in NOK.

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

	2021	2020
<i>(USD '000)</i>		
Deferred tax assets on		
Losses carry forward	8,492	8,636
Loss carry forward not recognised	(335)	(251)
Future uplift recognised in PPA	-	-
Uplift carry forward	9,742	9,999
Asset retirement obligations	149,339	135,465
Inventories	-	-
Other items	2,995	4,026
Total deferred tax assets	170,234	157,875
Deferred tax liabilities on		
Property, plant and equipment	(292,497)	(226,860)
Capitalised exploration expenditures and capitalised interest	(1,370)	(1,340)
Inventories	(42)	(2,201)
Other items	(756)	(1,257)
Total deferred tax liabilities	(294,665)	(231,658)
Net deferred tax liabilities	(124,431)	(73,783)
Net deferred tax liabilities in balance sheet	(124,431)	(73,783)

Change in net deferred tax liabilities during the year

	2021	2020
<i>(USD '000)</i>		
Net deferred tax liability at 1 January	(73,783)	(14,455)
Deferred tax assets reclassified to assets held for sale	-	(7,142)
Charged to the statement of income	(50,195)	(52,195)
Charged to OCI	(453)	9
Net deferred tax liability at 31 December	(124,431)	(73,783)

Reconciliation of tax receivables:

	2021	2020
<i>(USD '000)</i>		
Tax receivables at 1 January	56,891	20,296
Net refund from Skattetaten for prior year tax refund	(56,891)	(20,296)
Tax receivable from exploration refund	20,179	35,164
Tax receivable from current year tax losses from other than exploration and uplift	14,170	41,430
Tax receivable from Uplift	14,490	14,093
Refund from Skattetaten from current year tax losses from other than exploration and uplift	(20,338)	(33,795)
Tax receivables at 31 December	28,501	56,891

NOTE 13 PROPERTY, PLANT AND EQUIPMENT

	Oil and gas assets	Tools and equipment assets	Total
<i>(USD '000)</i>			
Carrying amount at 1 January 2020	285,441	152	285,594
Additions	62,995	18	63,013
Disposals	-	(20)	(20)
Asset removal obligation - new or increased provisions	6,486	-	6,486
Asset removal obligation - change of estimate	4,139	-	4,139
Transfers	15,457	-	15,457
Depreciation	(29,294)	(76)	(29,371)
Carrying amount at 31 December 2020	345,224	74	345,298
Additions	80,140	45	80,185
Asset removal obligation - new or increased provisions	14,016	-	14,016
Asset removal obligation - change of estimate	17,795	-	17,795
Transfers from intangible assets	3,817	-	3,817
Depreciation	(32,521)	(63)	(32,585)
Carrying amount at 31 December 2021	428,471	55	428,527

Estimated useful lives (years) UoP 3-10

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

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NOTE 14 INTANGIBLE ASSETS

	Goodwill	Exploration and evaluation assets	Total
<i>(USD '000)</i>			
Carrying amount at 1 January 2020	124,785	52,583	177,368
Acquisition	-	1,251	1,251
Capitalised license 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
Acquisition	-	6,926	6,926
Capitalised licence costs	-	20,092	20,092
Expensed exploration expenditures previously capitalised	-	(38,252)	(38,252)
Transfers to tangible assets	-	(3,817)	(3,817)
Carrying amount at 31 December 2021	63,138	42,933	106,071

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

Expensed exploration expenditures in 2021 were related to dry well in PL 617 (Eidsvoll), downward adjustment of the resource estimate in PL 820 S Iving discovery, and relinquishment decision in relation to licences PL 1047 and PL 1062.

NOTE 15 ASSETS CLASSIFIED AS HELD FOR SALE

	Total
<i>(USD '000)</i>	
Carrying amount at 1 January 2020	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	-
Paid cash call	-
Deferred tax	-
Change in deferred tax	-
Disposals	-
Carrying amount at 31 December 2021	-

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

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

The remaining 10 per cent share, divested to PGNiG Upstream Norway AS, was completed in February 2020.

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 31.12.2021:

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

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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 whether an impairment is required at 31 December 2021, Pandion Energy has used a combination of Brent forward curve from the beginning of 2022 to the end of 2023, a mean of market participant view from 2024 to 2027 and a 2% inflation of the 2027 market participant view from 2028 and onwards, a future cost inflation rate of 2% per annum and a discount rate of 8% to calculate the future post tax cash flows. Below is an overview of the key assumptions applied for impairment testing purposes as of 31 December 2021.

Year	2022	2023	2024	2025	2026	2027
Brent oil price, USD/BOE, in real terms	76	70	68	66	64	66
Currency rates, USD/NOK	8.85	8.90	8.82	8.74	8.66	8.58

Impairment of Valhall & Hod fields including goodwill has been tested for sensitivity for change in the various assumptions: 10 per cent reduction of commodity prices, 5 per cent reduction in production volume, 1 percentage point increase in discount rate, USD/NOK rate reduction by 1 NOK/USD, and 1 percentage point reduction of inflation. None of these changes in the assumptions have caused impairments, given that the other assumptions remain the same.

NOTE 17 BORROWINGS

Revolving Exploration Finance Facility

	Facility currency	Utilised amount	Undrawn facility	Interest	Maturity	Carrying amount
(USD '000)						
At 31 December 2021	NOK	19,276	-	NIBOR + 1.75 %	Dec 2022	19,174
At 31 December 2020	NOK	24,529	22,350	NIBOR + 1.75 %	Dec 2021	24,168

The total credit limit for the company at 31 December 2021 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 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:

	2021	2020
(USD '000)		
Current tax receivable - exploration refund	20,179	35,164
Total	20,179	35,164

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.

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Reserve-Based Lending Facility Agreement (RBL)

	Facility currency	Utilised amount	Undrawn facility	Interest	Maturity	Carrying amount
(USD '000)						
At 31 December 2021	USD	67,000	83,000	LIBOR + 3.25%	July 2026	65,429
At 31 December 2020	USD	83,500	66,500	LIBOR + 3.50%	July 2026	81,424

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. The margin was reduced from 3.5% to 3.25% per annum due to the company delivering positive cash flow for a twelve months preceding period to the accounting end date of the second quarter Financial statements. In addition, a commitment fee is paid for unused credits.

The RBL facility is at year end classified as current liabilities due to final maturity date being defined as the earliest of July 2026 and the date falling 6 months prior to the maturity date of the current bond debt. The company intends to refinance the Bond in full in 2022. The RBL will after refinancing of the bond debt in 2022 be again classified as non-current borrowings.

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):

	2021	2020
(USD '000)		
Bank accounts excluding pledge account EFF	21,522	16,491
Borrowing base assets*	263,237	198,126
Trade receivables	15,603	6,043
Inventory	(623)	2,567
Hedging agreements	(468)	(653)
Total	299,271	222,573

* 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, (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 December 2021	NOK	49,566	10.61%	April 2023	43,889
At 31 December 2020	NOK	49,566	10.61%	April 2023	45,077

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 Energy.

Maturity profile based on contractual undiscounted cash flows

	2021	2020
(USD '000)		
Less than 12 months	86,276	24,529
1 to 5 years	49,566	49,566
Over 5 years	1,000	84,500
Total	136,841	158,595

NOTE 18 TRADE AND OTHER RECEIVABLES

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

NOTE 19 EQUITY AND SHAREHOLDERS

(USD '000)

	Share capital	Other paid in capital	Other reserves	Retained earnings	Total equity
Shareholders’ equity as of 1 January 2020	113,491	-	(3,446)	24,975	135,021
Share issue	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 December 2020	114,230	-	(3,478)	15,542	126,294
Share capital decrease					
- unregistered	(103,120)	103,120	-	-	-
Net income for the period	-	-	-	5,295	5,295
Other comprehensive income (loss) for the period	-	-	1,607	-	1,607
Shareholders’ equity as of 31 December 2021	11,110	103,120	(1,871)	20,837	133,196

Share capital of NOK 918 578 319.45 comprised 911 921 294 shares at a nominal value of NOK 1.0073. The company’s share capital was decreased by NOK 909,459,106.51 to NOK 9 119 212.94 on 3 November 2021, carried out by reduction of the par value of the company’s shares. The share capital decrease shall be used as allocation to funds. The finalisation of the decrease by Norwegian Authorities is pending expiry of creditor notice period as at 31.12.2021.

Pandion Energy Holding AS owns all 911 921 294 shares in Pandion Energy AS as at 31 December 2021. 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.

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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 31.12.2021 in addition to capital from the management team of Pandion Energy. The capital of USD 190 million is committed to Pandion Energy and can be drawn upon approval of the Board of the Company. Kerogen has further a right, however not an obligation to provide additional funds in an amount up to USD 110 million, resulting in an aggregate funding up to USD 300 million.

NOTE 20 ASSET RETIREMENT OBLIGATIONS

(USD '000)

Asset retirement obligations at 1 January 2020	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 December 2020	173,673
New or increased provisions	14,016
Asset removal obligation - Change of estimate	17,795
Amounts charged against asset retirement obligations	(20,121)
Accretion expenses	6,098
Asset retirement obligations at 31 December 2021	191,461
Non-current portion at 31 December 2021	181,362
Current portion at 31 December 2021	10,099

The calculations assume an inflation rate of 2.0 per cent and a nominal rate before tax of 4.0 per cent. During 2021, the ARO liability have increased by USD 17.8 million. ARO provisions have increased by USD 14.0 million related to new wells and installation of the new Hod B platform. Asset removal obligation assumption has further increased by USD 17.8 million due to increased service rate assumed on P&A activities and increased cost of WP removal. The cost of WP has increased after a third-party feasibility study and the fact that it has a close proximity to the IP platform which shall not be removed at the same time. The increased liability was partly offset by removal cost of USD 20.1 million in 2021. The accretion of ARO increased the liability with USD 6.1 million.

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

	Oil derivatives	Currency futures
(USD '000)		
Financial assets (liabilities) at 1 January 2020	(252)	-
Expired contracts at cost	(143)	-
Value increase (decrease)	(258)	2,451
Financial assets (liabilities) at 31 December 2020	(653)	2,451
Expired contracts at cost	(718)	-
Value increase (decrease)	903	(2,229)
Financial assets (liabilities) at 31 December 2021	(468)	222

The company has focused on securing liquidity and thus entered into an oil price hedging programme to reduce the risk related to oil prices. At the end of the 2021, Pandion Energy had put in place a hedging programme until 31.12.2022. The outstanding hedges as of year-end consisted only of put options. The negative fair value of the options at 31.12.2021 is explained by the options are purchased with deferred premium.

NOTE 22 TRADE, OTHER PAYABLES AND PROVISIONS

	2021	2020
(USD '000)		
Trade payables	1,797	2,733
Share of payables in licences	16,594	16,923
Other non-trade payables, accrued expenses and provisions	9,087	11,368
Trade, other payables and provisions	27,478	31,024

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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	USD-LIBOR-BBA
Spread leg 2	7.70%

Interest rate swap

Interest rate swaps are derivative contracts in which two counterparties have agreed to exchange cash flows over a period of time based on rates applied to a specified notional principal amount. In Pandion Energy’s interest rate swaps the Company is required to pay a fixed interest rate in exchange for a variable market interest rate determined from time to time, both calculated on a specified notional principal amount. No exchange of principal amount takes place. The key terms of the interest rate swaps are listed below.

Terms of interest rate swaps

Trade date	26th April 2018
Effective date	5th July 2018
Maturity date	4th October 2022
Notional amount	USD 51 609 606
Floating rate leg 1	USD-LIBOR-BBA
Fixed 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;
- 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:

		Nominal amount of the hedging instrument	Carrying amount of the hedging instrument		Line item in the statement of financial position where the hedging instrument is located	Changes in fair value used for calculation of hedge ineffectiveness for 2021
			Assets	Liabilities		
(USD` 000)						
Cash flow hedges						
Foreign exchange risk	Cross-currency swap	51,610	-	6,723	Hedging derivatives	(752)
Interest rate risk	Interest rate swap	51,610	-	1,341	Hedging derivatives	1,482

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Hedging reserve	Interest rate risk	Foreign exchange risk	Sum
<i>(USD '000)</i>			
Opening balance hedge reserve 2020	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)
Added to OCI: Change in fair value of hedging instrument recognised in OCI	70	(1,403)	(1,332)
Reclassified to Income statement – from OCI	1,869	1,523	3,393
Tax	(427)	(27)	(453)
Closing balance - hedge reserve 2021	1,926	(3,796)	(1,871)
Amount reclassified to profit and loss			
Transfers due to hedge item affecting profit or loss			
Interest rate risk			1,869
Foreign exchange risk			1,523
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 lease has an arrangement with contingent payment if the company brings the lease to an end after three years. In June 2020 Pandion Energy entered into an additional agreement for extra storage space. The right-of-use storage asset is valued at kUSD 12. 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 2020	1,253
Remeasurement lease liability	30
New lease debt recognised 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 December 2020	770
Remeasurement lease liability	20
New lease debt recognised in the period	-
Derecognition of lease liability	(9)
Lease payments	(307)
Interest expense	56
Currency adjustments	(26)
Total lease debt after IFRS 16 at 31 December 2021	504

Nominal lease debt maturity break down	2021	2020
<i>(USD '000)</i>		
Within 1 year	279	234
1 to 5 years	279	564
After 5 years	-	-
Total	558	798

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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 recognised in the balance sheet as of 31 December 2021.

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 year option period.

Long term commitments partner-licenses rigs	2021	2020
(USD ‘000)		
Within 1 year	3,887	7,384
1 to 5 years	-	3,887
After 5 years	-	-
Total	3,887	11,272

During Summer 2021 the Maersk Reacher was contracted by the Valhall licence on a 9 months contract to do stimulation and intervention activities on Valhall. The short-term exemption under IFRS 16 was applied for this contract.

Lease agreements for rigs have been entered into by the operator on behalf of partners in PL 891, PL 929 and PL 938 licences, to be used for appraisal drilling on Slagugle discovery and the drilling of the Ofelia and Calypso prospects in 2022. These lease commitments are 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 - Development projects	2021	2020
(USD ‘000)		
Within 1 year	4,299	28,205
1 to 5 years	-	3,500
After 5 years	-	-
Total	4,299	31,705

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 6.6 million.

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 2021.

NOTE 26 RESERVES (UNAUDITED)

Proved and probable reserves	million barrels of oil equivalent (mmboe)
Balance at 1 January 2021	33.4
Revision of previous estimates	(0.1)
Discoveries, additions and extensions	0.7
Acquisition of reserves	-
Divestment of reserves	-
Year 2021 production	(1.9)
Total reserves at 31 December 2021	32.1

The company’s proved and probable oil and gas reserves (2P) have been at the end of 2021 estimated to approximately 31.2 mmboe compared to approximately 33.4 mmboe in 2020. Reserves are calculated in accordance with the Norwegian Petroleum Directorate’s requirements and based on revised national budget (RNB) 2022 numbers received from the operators together with internal information.

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NOTE 27 SUBSEQUENT EVENTS

In January 2022, Pandion Energy AS was awarded three licences under the 2021 APA (Award in Predefined Areas) licence round on the Norwegian Continental Shelf. The areas awarded include two new licences, where one is planned to be matured alongside with PL 891 where the partnership is currently preparing to drill the first appraisal well on the Slagugle discovery made in 2020. One additional acreage in a licence (PL 263) already existing in the portfolio was also awarded.

In January 2022, the operator on Valhall & Hod fields entered into a rig swap agreement where Maersk Reacher is to be replaced by the Maersk Integrator. The swap will take place in the first quarter of 2022. The Maersk Reacher work scope will be transferred on to the Maersk Integrator with an added scope estimated to eight months, which means that Maersk Integrator will be employed until January 2023.

In March 2022, the company announced signing an agreement with ONE-Dyas Holdings B.V. to acquire ONE-Dyas Norge AS. The transaction includes a 10 per cent share of the Nova field, operated by Wintershall Dea, and a total of 10 exploration licences. The Nova field is expected to start production in the second half of 2022. The transaction is subject to customary conditions for completion, including but not limited to approval by the Norwegian Ministry of Petroleum and Energy.

Following the Russian invasion of Ukraine at the end of February, the board notes the implications for commodity prices and potential interruptions of supply chains and third-party services. Several countries have condemned the invasion and severe sanctions have been imposed. While the human suffering is clearly the main concern, the board must acknowledge that economic uncertainty, despite no direct exposure to the regions or sanctions, may have an impact on the company’s business and its markets going forward. The extent to which the invasion impacts the company’s results will depend on future developments, which are highly uncertain and difficult to predict, including new information which may emerge on an ongoing basis. Pandion Energy is committed to complying with relevant sanctions and trade control legislation and is monitoring the development in order to mitigate the potential impact on the company’s operations.

Lars Atle Lauvsnes
State Authorised Public Accountant

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

EBITDAX

Earnings before interest, tax, depreciation, amortisation and exploration.

Corporate sources

Cash balance, revenues, equity and external funding.

Corporate uses

Operating expenditures, capital expenditures, abandonment expenditures, general and administration costs, exploration costs, acquisition costs and financing costs.

Scope 1 GHG emissions

Direct emissions from owned or controlled sources.

Scope 2 GHG emissions

Indirect emissions from the generation of purchased energy.



SUSTAINABILITY REPORT

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.

Introduction



Since its inception, Pandion Energy’s strategy has been to be an active and responsible partner in creating further stakeholder value by investing in projects placed at the lower end of the carbon intensity curve and by targeting upsides in and around proven assets with access to existing infrastructure.

Today, Pandion Energy is a full-cycle upstream company, participating in exploration, appraisal, development and production of oil and gas resources on the Norwegian continental shelf (NCS), including sales and marketing of crude oil.

Since production started on the NCS in the early 1970s, the oil and gas sector has grown into Norway’s largest industry measured by value added, government revenues, investment and export value. Petroleum activities have contributed significantly to economic growth in Norway and to financing the Norwegian welfare state. Activity on the NCS will continue to be vital to the national economy in the years ahead. While global energy demand is expected to grow significantly over coming decades, emissions need to be materially reduced in order to meet the goals of the Paris agreement. Although the world’s dependence on fossil fuels will undoubtedly decrease over time and the exact path to a decarbonised economy is uncertain, oil and gas will exist alongside renewables for decades to come, both as a source of energy and as a raw material for a wide range of products.

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. In 2021, Pandion Energy became one of the first exploration and production (E&P) companies on the NCS to achieve carbon neutrality for CO₂ emissions in scopes 1 and 2. Furthermore, it supports the UN sustainable development goals (SDGs) selected by its main shareholder Kerogen Capital, including the following:



We aim to be an active and responsible business partner and believe that sound business decisions are a product of a strong team, an active board and competent owners.

The company’s core values – professional, agile, commercial and a team player – are an integral part of its culture. From the energy used to power its biggest asset, the Valhall and Hod fields, down to the investment criteria for prospective opportunities, sustainability is at the core of the company’s business strategy. Climate risk has been incorporated into its investment criteria with the objective of creating value on the basis of being a carbon-neutral producer.

Pandion Energy’s carbon intensity is amongst the lowest in the E&P industry, both globally and on the NCS. Despite its relatively modest size and non-operator status, it works closely with the operators of its assets to ensure that the best practices for sustainable operations are continually applied.

The licensee role

A great deal of diversity prevails today on the NCS. At the beginning of this century, the NCS was opened up to various categories of companies as a way of ensuring sound resource management. The large international oil companies were joined by other types of players with differing perspectives on value creation, promoting competition and efficiency.

Joint operating agreements are particularly common in the oil and gas industry. In a production licence (PL), one company is assigned the status of the operator, and each partner holds a percentage of equity as a licensee. This distinction is important, since the operator is responsible for the day-to-day management of activities within the licence, while the licensees have a reduced level of control. However, licensees on the NCS have a “see to it” duty – an obligation to ensure that the operator carries

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out its work in accordance with the regulatory requirements. Licensees who have been awarded production licences on the NCS are carefully assessed in advance and prequalified by the Norwegian regulators – in part on the basis of their expertise, capacity and willingness to discharge the responsibilities of a licensee. The joint venture structure enables experience transfer, supervision of the operator’s activities and enhanced decision-making.

At 31 December 2021, a total of 36 exploration and production companies were active on the NCS: 23 as operators and a further 13 as partners in production licences. Pandion Energy is a privately-owned full-cycle oil and gas company, participating in E&P activities on the NCS as a licensee. At 31 December 2021, Pandion Energy was a partner in 14 licences.

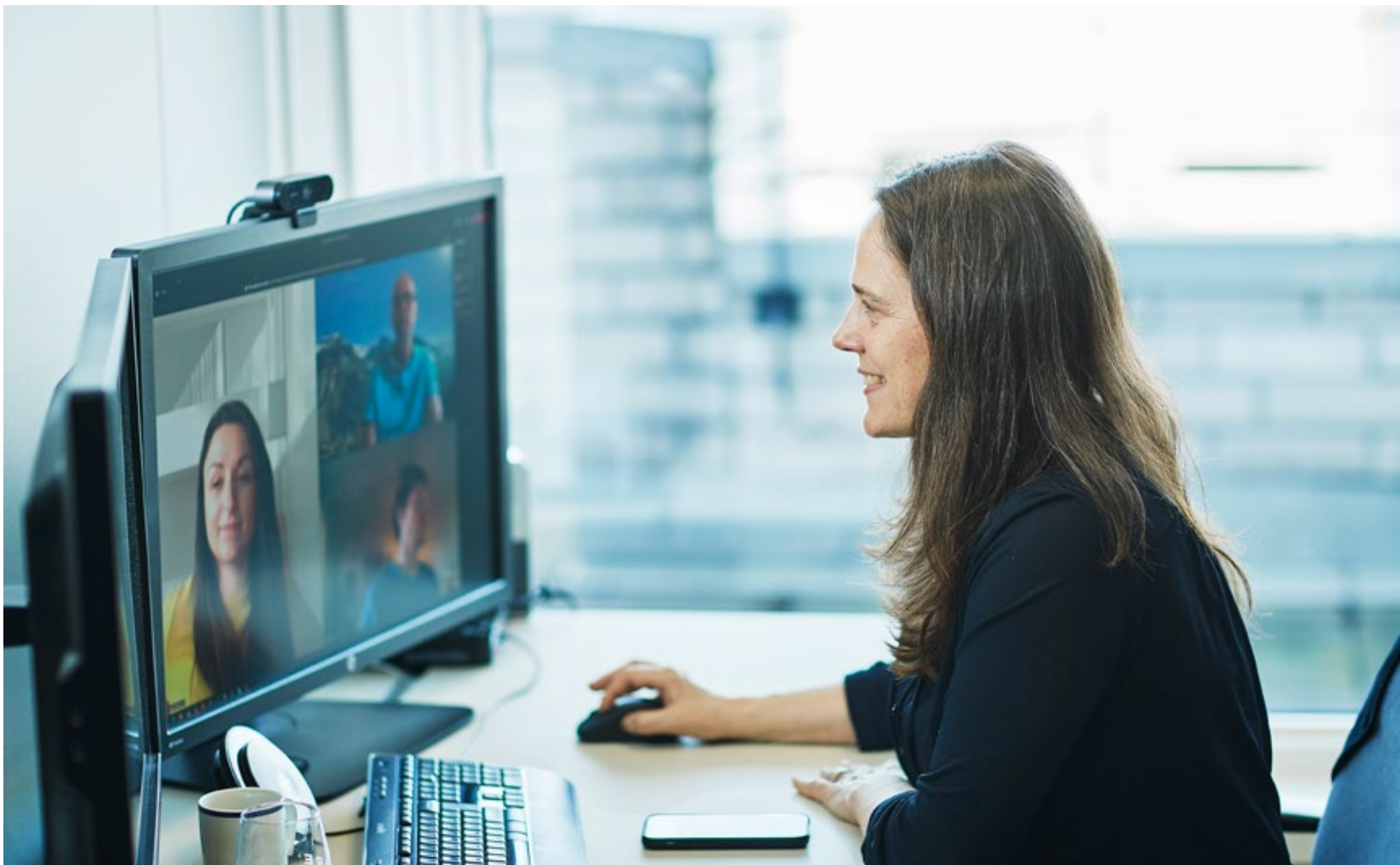
Being an active and responsible partner

A licensee on the NCS has a responsibility to take action if it identifies conditions which fail to comply with Norway’s health, safety and environmental (HSE) regulations for the petroleum sector. It also has an independent duty to secure adequate information and to audit the operator as necessary. The licensee must take a risk-based approach in observing this “see to it” duty, and establish a management system to structure its supervisory work in a systematic manner.

Pandion Energy takes its responsibility as a licensee very seriously, and aims to be recognised as an active and responsible partner. The company has established a comprehensive HSE management system which requires competent employees and contractors to deliver compliant operations through rigorous planning and execution. It is also a system for effective risk management.

The company has a team of 25 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. It benefits greatly from its borderless cross-disciplinary communication and short decision lines, which permit the company to develop a different perspective from the operator when not focusing on day-to-day execution of operations.

As solely a partner, Pandion Energy is also reliant on working closely with the operators to set environmental, social and governance (ESG) objectives and supervise



the management and performance of such matters. Pandion Energy advocates sharing of raw emission data within licences in order to take responsibility for its share of the activities.

As a partner, Pandion Energy is also reliant on working closely with the operators to set environmental, social and governance (ESG) objectives.

Outlook towards net zero carbon

According to the Norwegian Environment Agency (NEA), oil and gas extraction is the second largest source of greenhouse gas (GHG) emissions in Norway. In 2020 it accounted for 27 per cent, deriving from extraction of oil and gas on the NCS, gas processing in onshore facilities, and loading, storage and transport of crude oil and other petroleum products. Most of these GHG emissions are CO₂ from energy production. Energy efficiency, reduced flaring, increased use of electricity, and carbon



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capture and storage are highlighted as the most important measures for reducing future emissions.

No “business as usual” exists for the energy industry on the path to a net zero society. While the renewables sector is set for significant growth, oil and gas consumption is likely to underpin primary energy demand for some time to come. A pure-play oil and gas company can play a vital role in this energy transition. Pandion Energy believes that managing the risks and opportunities posed by the transition is critical for delivering long-term returns to its investors. Norway has a well-developed transition strategy, with the industry enjoying a relatively low carbon footprint. Pandion Energy ranks amongst the companies with the lowest place on the Norwegian petroleum industry’s carbon intensity curve.

A carbon-light strategy has always been an imperative for Pandion Energy. A key part of its strategy is to maximise the value of oil and gas assets by using infrastructure already in place, utilising available resources in the best possible manner, keeping costs low and emissions at a minimum. The company specifically targets upsides in and around proven assets with access to existing infrastructure, and has updated its investment criteria to ensure that new growth opportunities are evaluated with regard to CO₂ aspects and climate change while working with the industry to meet the GHG emission targets set by national regulators. The company strives to work collaboratively with industry peers and partners in sharing lessons learned and improving the collective ability of the industry to minimise the environmental footprint and to be aligned with a carbon-neutral world.

As the rest of the world starts to move closer to Norway’s leading position on E&P carbon intensity, Pandion Energy will continue working to minimise its footprint and support other players in the sector to do the same.

Stakeholder engagement and materiality

Pandion Energy engages both directly and indirectly with internal and external stakeholders in a continuous dialogue throughout the year to obtain their insights on sustainability topics. Key stakeholders are employees, investors, business partners, government agencies, local communities, NGOs and suppliers. The company is committed to an open and transparent communication with all stakeholders by promoting proactive dialogue and seeking honest feedback on all its activities.

Sustainability in Pandion Energy is anchored by the material issues identified as having the greatest impact for Kerogen Capital, its main shareholder. These material sustainability topics are expected to be valid in the medium to long term. Significant attention is paid to key energy-specific ESG factors such as compliance, operational health and safety, environmental impact and climate change.

Consequently, Pandion Energy has addressed these issues in the sustainability section of this 2021 combined annual report. During 2022, the company will further strengthen its reporting on the basis of an updated materiality assessment.

Corporate governance and compliance



Pandion Energy believes that effective corporate governance is critical in ensuring accountability, achieving its strategic goals and generating value for its stakeholders. Together with Kerogen Capital, its main shareholder, the company seeks high standards of performance and professionalism based on honesty, integrity and fairness in its business practices. Pandion Energy works together with partners and contractors on the basis of the same principles of integrity and fairness, with zero tolerance for bribery and corruption.

The board believes that good governance is rooted in compliance with legislation and statutory regulations and in ensuring a culture of integrity, accountability and transparency. Corporate governance aims to regulate the division of roles between shareholders, the board and the executive management more comprehensively than is required by legislation.



Pandion Energy has established a comprehensive HSE management system, which requires competent employees and contractors to deliver compliant operations through rigorous planning and execution, and is also a system for effective risk management.

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 executive management.

- Governance at the shareholder and financial market level occurs through the general meeting, investor relations activities and financial market communications, including financial reporting.
- Board-level governance includes setting strategies and objectives for the company, defining instructions, policies and risk limits, and monitoring operations, reporting and compliance.
- The board has appointed a chief executive officer (CEO) to act as the company's principal operational manager. The CEO's powers have been specified by the board, and they are required to work within that mandate and report regularly to the board.
- A key governance element at the management level is the company's business management system, which includes formalised business processes for all main activities in the company, including business planning, implementation and monitoring.

ESG roles and responsibilities

Executive management is responsible for risk and opportunity identification and for ensuring effective processes and mitigation efforts, including ESG matters within their respective areas of responsibility. VP HSE and operations is responsible for ESG reporting and supervising the processes related to risk management, HSE follow up, compliance, and business continuity. The CEO is ultimately responsible for the ESG performance of the company. While the board has an overall leadership and supervisory role in all ESG matters including climate change.

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The board has two sub-committees, for ESG and remuneration respectively.

The ESG committee comprises two board representatives supported by CEO and VP HSE and operations. Its primary role is to support the board in:

- managing ESG risks (including their impact on the community, climate change and the environment), and ensuring that the company’s ESG policies and practices are in alignment with its values, purposes and culture
- integrating the management of climate change and other sustainability factors into the company’s strategy and business plan, and aligning external reporting with recognised norms.

The remuneration committee ensures that remuneration arrangements support the corporate strategy and performance, including ESG- and climate-related performance targets.

Responsible business

Pandion Energy strives to uphold the highest standards of ethical behaviour in all its operations along the whole value chain. The company’s commitments to responsible business conduct are set out in its code of conduct, including its position on anti-corruption and human rights.

Code of conduct

Pandion Energy believes strongly that an ethical business culture is the cornerstone of a sustainable company. Its code of conduct includes mandatory requirements for everyone who works for and on behalf of Pandion Energy, serves as the company’s guide to ethical business practice, and represents its core values for acting with integrity at all times.

The code of conduct is the company’s main governance tool. It provides guidance on how to act in accordance with the company’s core values, and includes references to relevant policies, processes, procedures, resources and tools. It sets out Pandion Energy’s expectations, commitments and requirements for ethical conduct in its business. The code of conduct applies to directors, executive management and all



employees and consultants. Pandion Energy also expects all its business partners and suppliers to act in a manner consistent with the principles of the code of conduct.

Areas covered by the code include the 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.

The board of Pandion Energy has established the code of conduct in close cooperation with the management team. The CEO is ultimately responsible for its implementation and for monitoring its operational effectiveness. The code of conduct will be evaluated on a regular basis to reflect Pandion Energy’s activities as it develops as a company and as changes are made to laws and regulations.

The company requires all employees and in-house consultants to participate in training in the code of conduct. All employees have a personal responsibility to comply with the requirements set out in the code of conduct as well as applicable

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laws and statutory regulations relevant to their work. Managers have an additional responsibility in supporting and promoting compliance with the code of conduct and related policies, standards and procedures. The code of conduct is communicated internally and on the company’s website.

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.

No cases involving breaches of the guidelines in the code of conduct were recorded in 2021.

Anti-corruption

Corruption exposes not only the individual but also the company to penal liability. In addition, it may cause significant losses as well as irreparable and long-term harm to the company and its business. At Pandion Energy, it is wholly unacceptable to engage in any activity regarded as corruption or other illegal practices such as anti-money laundering or tax evasion. The company has zero tolerance for any form of bribery, corruption, fraud, dishonesty or deception, and this stance is endorsed by the board. This means that Pandion Energy has no tolerance for paying, facilitating or receiving any bribes or facilitation payments, for using undue influence, disguising the proceeds of crime or facilitation of tax evasions. The company conducts its business honestly, fairly and transparently.

Although the risk of corruption in Norway is generally considered to be low, it is important to be aware that corruption also happens there and to be conscious of potential dilemmas and grey areas, such as conflicts of interest, relationships with business partners, gifts and hospitality. The company’s goal is to act in an ethical and transparent manner, so that it can be a trusted business partner, employer and corporate citizen.

Pandion Energy will comply with all applicable anti-corruption laws and regulations. The company is backed by Kerogen Capital, an independent private equity fund manager based on London and Hong Kong, and is required to comply with the UK Bribery Act and the US FPCA.

The company’s employees must not offer, promise or give, nor request, agree to receive or accept, any bribe of any description or value to reward the improper performance of a person’s duties, including public officials. Bribes could be monetary, but can equally take other forms such as the offer of a job, travel, accommodation, use of assets, or a service or loan. No employee should ever engage in, authorise or tolerate corruption for any reason at any time. Furthermore, they should never offer or accept an improper advantage which has no legitimate business purpose and is provided in order to influence the recipient’s decision-making.

Employees are obligated to report to their line manager or other senior executive if they witness a bribe or are ever offered or requested to pay a bribe. Payment extorted through a threat to life, health or safety, or of illegal detention, is permissible and will not result in any form of retaliation, but must be reported immediately.

Pandion Energy’s anti-corruption and anti-bribery efforts includes necessary controls embedded in the company’s financial and procurement procedures, audits, business-partner due diligence and awareness training, as well as an independent channel for reporting concerns. The company also encourages its business partners and suppliers to make a clear commitment to opposing corruption and bribery.

No cases of corruption were reported in 2021.

Confidentiality, inside information and conflicts of interest

All employees should make sure that they keep confidential information secure, and be aware of their responsibility to not talk about confidential and sensitive information concerning Pandion Energy with outsiders, including family and friends. In addition to confidentiality agreements with partners, counterparties and other stakeholders, the company has a general obligation to maintain confidentiality and protect the business.

Inside information covers details about a listed company that are not publicly available and are likely to have a noticeable effect on the price of securities. While Pandion Energy is not a listed company, its bond loan has been listed on the Nordic ABM from October 2018. The Nordic ABM is an alternative bond marketplace regulated by Oslo Børs ASA. Listing indicates that the bonds are subject to market surveillance by Oslo Børs, which carries out identical market surveillance for both the Oslo Stock Exchange and Nordic ABM. Pandion Energy employees may well become aware through their

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work of inside information concerning vendors, business partners and, particularly, licence partners.

Information concerning specific licences may represent inside information until it is disclosed to the public. In general, the company has an obligation towards its licence partners to maintain the confidentiality of all information related to licences.

More specifically, Pandion Energy employees may not misuse inside information for their own benefit or for the benefit of family members or affiliates. Pursuant to the Norwegian Securities Trading Act, trading in securities while in possession of inside information is subject to strict liability. Pandion Energy will not tolerate any breach of confidentiality in general or any misuse of inside information.

The company respects the privacy of its employees and their right to manage their personal affairs, activities and investments. However, conflicts of interest may arise if personal, social, financial or political activities could influence, or appear to influence, their ability to make the right decision for Pandion Energy. The company expects all employees to act in its best interest at all times.

Whistleblowing

Pandion Energy believes in openness and transparency. Illegal or unethical matters may have a negative effect on the working environment and the company’s business in general. It is important that such matters are dealt with properly.

The company encourage employees, contractors and any of its current and former affiliates who have concerns about any aspect of its business to raise them and to disclose any information which relates to improper, unethical or illegal conduct in the workplace. Pandion Energy employees have a right and an obligation to raise concerns about the business, including matters such as:

- illegal conditions and breaches of the law
- breach of ethical norms and internal guidelines
- harassment or discrimination in the workplace that may endanger life or health.

No whistleblowing reports were received during 2021.

HSE policy

HSE are critical in the oil and gas industry, where operations can affect the environment, communities and the workforce. Devoting attention to HSE and governance issues is strategically important to Pandion Energy. The company integrates technical, economic and HSE considerations in its decision-making and operational processes in order to achieve long-term sustainability of the business and to reduce risk.

Pandion Energy places great emphasis on ensuring that operations it participates in are safe for the people involved, and seeks to minimise their impact on the environment. All personnel, whether employees or contractors, are expected to be aware of their role in managing HSE risks within their area of responsibility and expertise. Employees are encouraged to speak up and to halt any work they feel to be unsafe and, furthermore, to report any instances of unsafe practices and/or any dangerous working conditions.

No cases or activities in violation of the HSE policy guidelines were registered in 2021.



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Risk management

Technical, economic and ESG considerations, including HSE and climate risk, are integrated in Pandion Energy’s decision-making and operational processes in order to achieve long-term sustainability of the business and to reduce risk. Pandion Energy strives constantly to manage ESG risks by understanding the exposure to risk, and thereby minimising the possibility of occurrence and reducing the potential consequences. Effective management of ESG risks is about embedding ESG practices in the company’s culture and operating procedures.

Business risk is an integral part of Pandion Energy’s strategies and goals, and company activities will be based at all times on a balanced and realistic view of risks and opportunities. Responsibility for implementation and accountability for the results rest with the board and executive management, and must be owned and understood at the appropriate level in the organisation.

Pandion Energy manages and reports enterprise-level risks and opportunities through an enterprise risk management process. The purpose of this process is to:

- identify, monitor and report potential events that may affect the company
- manage risk to keep it within the company’s risk appetite
- provide reasonable assurance that key objectives will be reached.

Enterprise risks and opportunities are captured across four major business risk categories: strategic, operational, financial and compliance/ESG.

Communicating risk has a high priority in Pandion Energy and the framework is purposely designed to discuss the key issues effectively rather than provide a rigid documentation of all possible risks that any enterprise is exposed to. It enables the board to actively assess the overall risk exposure of the company as required by its governance process.

Reference is also made to the Directors’ Report statement on risk and risk management on page 24.

Climate change



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 limit global warming to below 2°C and ideally to 1.5°C. 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 – as demonstrated by carbon intensity levels per barrel which are amongst the lowest in the Norwegian and global E&P industry, ranging from 1.1 – 3.4 kilograms of CO₂ per barrel of oil equivalent for its net production. In 2021, Pandion Energy launched its strategy to achieve net zero carbon emissions.

A key part of this strategy involves aligning the company’s investment criteria to ensure that new growth opportunities are evaluated with regard to CO₂ aspects and climate change risk in order to sustain a resilient asset portfolio.

To meet the demands of the worlds growing population the need for affordable, reliable and clean energy is increasing. The path to the energy system of the future is uncertain and, as reflected by forecasts and scenarios from the International Energy Agency (IEA), a wide range of different outcomes exists for oil and gas demand. While the world’s reliance on fossil fuels will undoubtedly decrease, oil and gas will remain an important commodity even in a fully decarbonised society. The oil and gas industry must thus continue its efforts to reduce its operational emissions to the lowest possible level.

In 2021, Pandion Energy became one of the first E&P companies on the NCS to achieve carbon neutrality for CO₂ emissions in scopes 1 and 2. The commitment to carbon neutrality has been achieved through low carbon intensity production and by carbon offset programs aligned with the UN sustainable development goals (SDGs) for the remaining balance of the hard-to-abate emissions. Pandion Energy recognises that carbon offsetting is not the long term solution to climate change. It sees the use of offsets as part of an overall plan to reduce carbon impact of its operations with the target to reduce absolute emissions over time.

To meet stakeholder expectations for transparent and robust disclosures on how risks related to climate change affect the company and its resilience, Pandion Energy has committed to align its disclosures with the recommendations of the task force on climate-related disclosures (TCFD).

Reference is made to the TCFD index on page 85.

Scenario analysis and resilience

In line with the best practice recommended by the TCFD, Pandion Energy employs scenario analysis to assess potential impacts of the climate change and energy transition on its business, financial performance and long-term strategy.

Selected scenarios are evaluated to assess possible shifts in the macroeconomic outlook, technology developments, policy and legal implications, and projected demand for the company’s petroleum products (oil, gas and natural gas liquids). Each energy-transition scenario yields a range of commodity prices for power, gas, oil and so forth, and environmental fees and taxes. These assumptions are applied to refine the understanding of climate-related risks and opportunities and to assess the resilience of the company’s portfolio.

Pandion Energy’s scenario analysis includes the two following scenarios.

- The IEA’s Sustainable Development Scenario (SDS) – an energy future that simultaneously achieves the UN SDGs related to energy. In this scenario, a surge in clean energy policies and investments put global emissions on track for net zero by 2070, while also meeting the development aspirations of a growing global population.
- The IEA’s net zero emissions by 2050 Scenario (NZE2050) scenario – the world’s energy sector achieves net zero emissions by 2050 to fulfil the Paris agreement and limit global warming to 1.5°C by 2100.

Both scenarios are published by the IEA as part of its World Energy Outlook (WEO) reports and align with TCFD requirements which require companies to assess their resilience to a 2°C or lower scenario. They are also commonly used by Pandion

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Energy’s industry peers, and can aid investors and other stakeholders to assess portfolio resilience across companies.

A third-party consultant has been engaged to develop assumptions and modelling through a series of workshops, integrating the risks and the corresponding mitigation strategies into Pandion Energy’s enterprise risk management system for increasing its climate resilience.

Climate risk

Climate-related risks and opportunities are captured in line with the recommendations of TCFD. The identification and evaluation of climate related risks and opportunities is an ongoing process and an increase in the granularity of the analysis over time can be expected. The executive management team, ESG committee and board all engage in the risk review process for climate-related risks and opportunities. The risks are defined in short (zero-three years), medium (three to 10 years) and long-term (10-25 years) perspectives.

Transition risk

Policy and legal

The assumed policy and legislative changes are based on stated policies from the Norwegian government, regulatory changes related to stated commitments, and motivation for the transition to renewables. The carbon tax assumptions, for example, are specific to Norway and are more aggressive than the IEA SDS.

Petroleum operations on the NCS are subject to European Union emission allowances (EUAs) in the EU emission trading system (EU ETS) as well as the specifically Norwegian carbon tax. The combination of a national carbon tax and the EU ETS means that companies pay a higher price per tonne of CO₂ emitted in Norway than in most other countries with petroleum activities.

- Short-term (one-two years): increasing the carbon tax by around 10 per cent annually, which is in line with recent historical trends.
- Medium-term (around two-seven years or more): providing a clear market signal through raising carbon tax by 10-12 per cent annually, introducing additional environmental taxes and potentially removing tax exemption opportunities such as

exploration refunds. As part of Norway’s climate action plan announced in January 2021, the country has set a target of gradually increasing the total cost per tonne of CO₂ from around USD 80 in 2020 to USD 235 by 2030 (in 2020 value). This means that the national carbon tax will be regulated in a manner that takes EUA prices into account to ensure that the overall target prices in 2030 is reached. Also the government may rise the bar for frontier oil exploration.

- Long-term (around 10 years or more): limiting access to acreage and lowering asset valuation. Carbon costs may exceed USD 235 per tonne of CO₂ by then.

With a view to mitigating the risks outlined above, Pandion Energy has integrated its net zero carbon ambition into its investment strategy by:

- establishing an offsetting strategy with different pricing scenarios
- 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 reductions 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.

Technology

Pandion Energy assumes that market considerations should be reflected in technology development trends for renewable energy. The electricity-generation transition from fossil fuels to renewables is expected to accelerate. With a continued decline in the cost of solar, wind and related power technologies and improvements in their efficiency, variable renewable energy sources will gradually but steadily transition from a marginal role to becoming one of the most competitive electricity sources in 2050. Under the IEA SDS, 72 per cent of the world’s electricity will be generated from renewable sources by 2040.

Solar PV and wind will be the leading sources of the world’s electricity, providing a total of 45 per cent. An additional 17 per cent will come from hydropower.

However, a significant demand for oil will persist. Carbon capture, utilisation and storage (CCUS) technology can help to achieve net negative emissions from power

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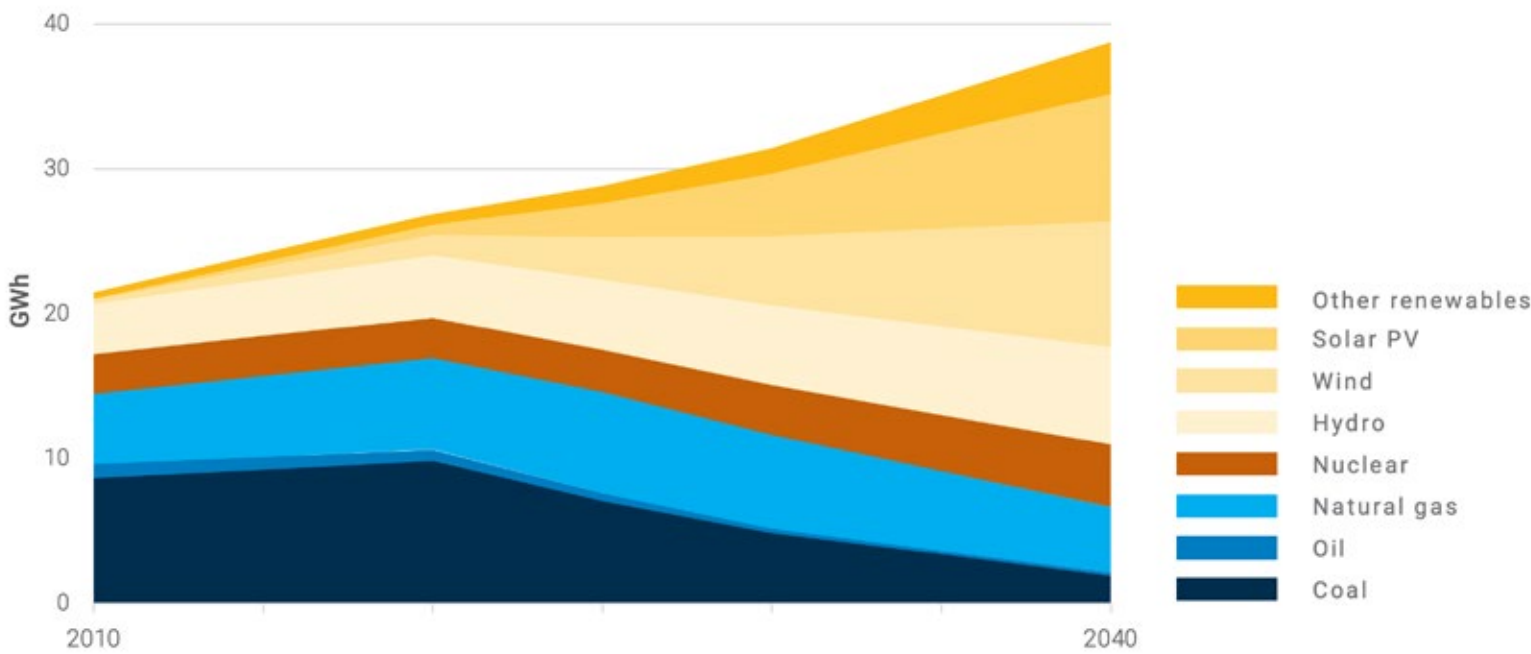
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and industrial sources, and offset transport and building emissions. In addition, Pandion Energy will continually review potential opportunities related to increased use of electricity on the NCS and repurposing offshore infrastructure, and consider investing in relevant projects. Financial risks posed by the increased cost of operations will be minimised when account is taken of the future carbon costs avoided and/or prolonging the commercial life of infrastructure through delayed decommissioning.

World electricity generation
Sustainable Development Scenario¹



Marked demand

“Final consumption” is defined as the energy supplied to the final consumer for all applications. It is usually disaggregated into the final end-use sectors – industry, transport, households, services and agriculture. The transition currently under way is particularly related to the growing dominance of electricity in final consumption, which will have increased to 31 per cent in 2040.

The steady increase in electricity use partly reflects the following factors:

- the share of renewables in the electricity mix is rising while the capital costs of solar and wind power-related infrastructure continue to decline, making electricity relatively cheaper than other energy
- electrical systems involve smaller losses than fossil- and biomass-fuelled systems
- more electrical-powered appliances are available in the market.

On the other hand, demand for oil will decline towards 2040, although there could be an incremental short- or medium-term increase towards a pre-Covid level. The net zero carbon strategy implemented by Pandion Energy not only builds a positive corporate image for sustainability, but also involves active steps to address a potentially reduced investor appetite in the long term.

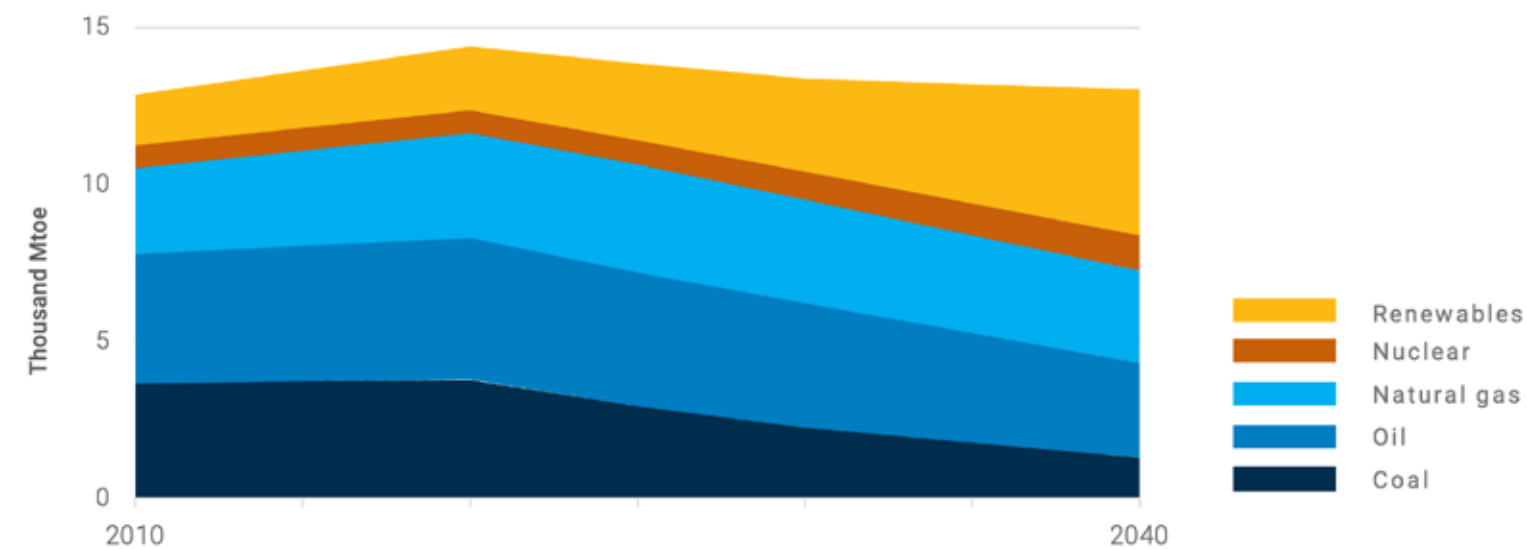
Oil price

Primary energy demand is the total amount of energy the world needs to meet its energy requirements. The IEA SDS forecasting model shows that the total global energy demand will decline gradually from 14.4Mtoe in 2019 to 13.0Mtoe in 2040.

The share of fossil fuels in the energy mix, at just over 80 per cent, has remained steady for more than a decade. But this is set to change significantly with continuous decarbonisation around the world. The mix is estimated to become 56 per cent fossil fuels, 35 per cent renewable energy and nine per cent nuclear by 2040.

The NZE2050 scenario implies an even faster transition from hydrocarbons and a significantly lower demand for oil than the SDS. Pandion Energy will therefore devote greater attention to cost-efficient and quality assets when making investment decisions in order to reduce the financial risk of smaller revenues owing to unstable or low oil prices in the medium to long-term.

World primary energy demand
Sustainable Development Scenario¹



¹ Source: IEA World Energy Outlook 2020



Physical risk

Pressure points from the physical risks of climate change arise primarily from a possible increase in the severity of extreme weather and sea level rises, causing asset impairment in the long term.

Located in the North Sea, the field centre on the producing Valhall and Hod fields have been subject to subsidence, and rising sea levels and extreme waves may potentially amplify subsidence issues and the risk for installations.

The operator has designed a business continuity plan for extreme weather events to minimise operational downtime. To eliminate this risk and prolong the lifetime of the fields, the most exposed installations have already been phased out and are being decommissioned. Given the very long potential producing life of the fields, a project for building a new central platform has been initiated and, amongst other things, will factor these risks into the design.

Pandion Energy assesses physical risks from climate change as less material to its business and more manageable, due to the fact that its assets were designed to withstand acute and chronic physical impacts. But transition risks require more focus and active management, with the top risk for the company being the changing long-term demand for oil.

However, uncertainties and limitations are substantial, and Pandion Energy will continue to expand and evolve its scenario analysis to incorporate future market conditions.

Handling climate risk

Since its inception, Pandion Energy has been committed to maintaining a low carbon footprint, as demonstrated by carbon intensity levels per barrel which are amongst the lowest in both the Norwegian and the global E&P industry, at 1.5 kilograms of CO₂ per barrel of oil equivalent in 2021. Although this performance places it firmly in the top tier of the E&P industry worldwide, the company does not intend to rest content there. It supports the goal of the Paris agreement to achieve a carbon-neutral global economy, and is aligned with the carbon-reduction strategy adopted by the




Norwegian government and the net zero strategy of its main shareholder, Kerogen Capital.

Net zero carbon strategy

The carbon-light strategy has always been an imperative for Pandion Energy. As the rest of the world starts to move closer to Norway’s leading position on carbon emission reduction, the company will continue working to minimise its footprint and to support other players in the sector to do the same.

- Pandion Energy’s strategy to net zero carbon 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 the remaining hard-to-abate CO₂-equivalent emissions
 - aligning investment criteria to maintain a low carbon footprint in its portfolio
 - promoting transparency and accountability

Net zero carbon
Strategic targets

 <p>Working with industry to meet GHG emission reduction targets</p>	 <p>Committing to carbon neutral operations from 2020 (Scopes 1&2)</p>	 <p>Aligning investment criteria to maintain a low carbon footprint portfolio</p>	 <p>Promoting transparency and accountability</p>
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Climate commitments

Emission reductions

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. The company strives to work collaboratively with industry peers and partners in sharing lessons learned and improving the collective ability of the industry to minimise the environmental footprint and to be aligned with a carbon-neutral world.

Carbon neutrality

In 2021, Pandion Energy became one of the first E&P companies on the NCS to achieve carbon neutrality for CO₂ emissions in scopes 1 and 2. The commitment to carbon neutrality has been achieved through low carbon intensity production and by carbon offset programs aligned with the UN sustainable development goals (SDGs) for the remaining balance of the hard-to-abate emissions. Pandion Energy recognises that carbon offsetting is not the long term solution to climate change and sees the use of offsets as part of an overall plan to reduce carbon impact of its operations with the target to reduce absolute emissions over time. To ensure the environmental integrity of offsets, the company will be putting emphasis on carbon removal offsets which are in line with the Oxford principles for net zero aligned carbon offsetting.

Investment criteria

Pandion Energy has updated its investment criteria to ensure that new growth opportunities are evaluated with regard to CO₂ aspects and climate

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 key investment criterion for developments and producing assets
- incorporating the future cost of carbon emissions when evaluating new investments where renewable energy sources are not available.

Transparency and Disclosures

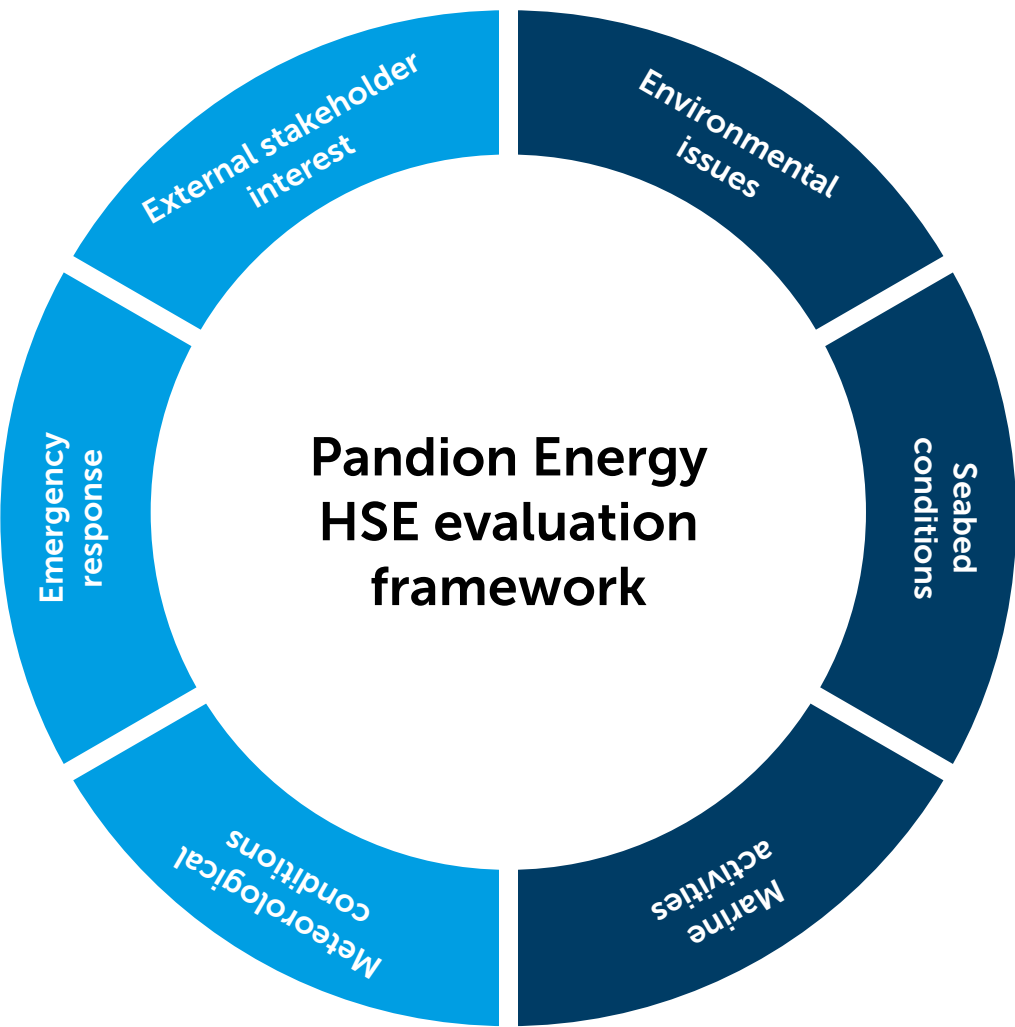
Pandion Energy has committed to align its disclosures with the recommendations presented by the TCFD. The company will advocate for sharing of raw emissions data within licenses in order to take responsibility for its net carbon emissions and has developed operational tools to monitor and support the assets' carbon reduction performance. Pandion Energy reports equity-based scopes 1 and 2 and selected scope 3 GHG emissions.

Environmental impact



Pandion Energy is committed to minimising the environmental impact of its activities. The company’s HSE policy sets out the objectives and expectations applicable to the operations which the company participates in as a licensee. Pandion Energy values transparency on risk and how environmental aspects are handled in relation to its assets, including managing and monitoring emissions to the air, minimising discharges to the sea and optimising waste handling. The company is also committed to considering, preserving and safeguarding biodiversity.

As part of its decision-making process before entering new licences, Pandion Energy has established an HSE evaluation framework for assessing HSE complexity on the basis of area properties – including (but not limited to) environmental issues such as sensitive habitats, spawning areas, biodiversity priority areas and vulnerable resources. At a later stage, this evaluation framework is applied as input to the company’s follow-up activities with the operators.



Environmental management

As part of its “see to it” duty, Pandion Energy confirms that the operator has established an environmental management system which is fit for purpose before commencing petroleum activities in any licence in its portfolio.

This is also a requirement in relation to regulatory application processes before commencing operations on the NCS. All responsible parties on the NCS must establish, follow up and further develop a management system designed to ensure compliance with the requirements of Norway’s HSE legislation – including the Pollution Control, Working Environment, Petroleum, Product Control and Fire and Explosion Protection Acts.



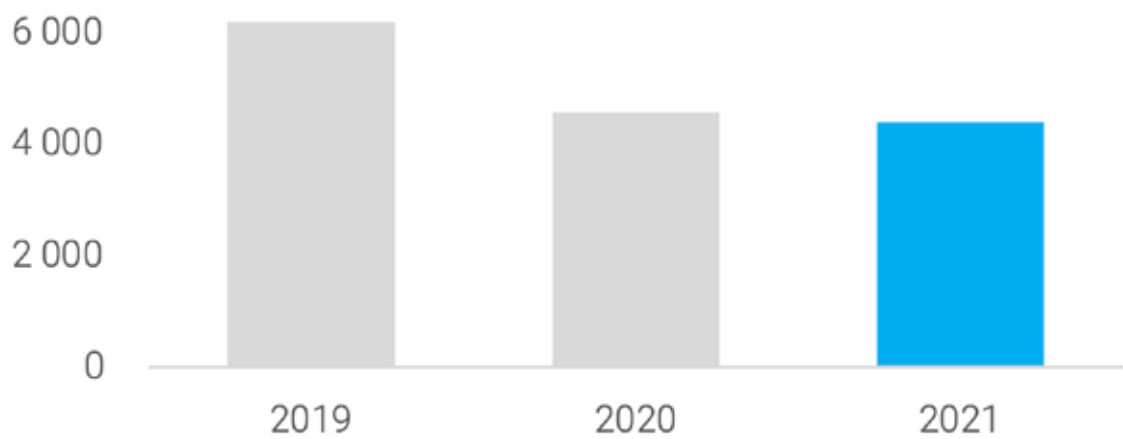
All petroleum-related activity on NCS is subject to public consultation and government approval, mostly through a consultative process on environmental permits. Stakeholders, local communities and interested parties are entitled to comment on environmental and social issues and to submit recommendations to the government on planned activities. Pandion Energy follows up operator responses to these recommendations, with attention concentrated on compliance with the government’s operational conditions as defined in the management plans.

Discharges to the sea from petroleum activities on the NCS are regulated by the licence discharge permits issued by the NEA. The compliance status of discharges and emissions is reported annually to the government for both producing fields and drilling activities. Annual reports, together with associated feedback from the NEA, provide input for a continuous improvement of environmental performance. The operator of the Valhall and Hod fields, where Pandion Energy holds a 10 per cent interest, holds a field-specific permit under the EU ETS, and the associated climate accounting for Scope 1 emissions is subject to annual third-party verification.

GHG emissions

Pandion Energy has established a GHG accounting system on the basis of the principles in ISO 14 064. Emission sources subject to reporting have been selected on the basis of materiality and control principles. The metrics disclosed represent the net equity share of GHG emissions from Pandion Energy’s working interest in licences on the NCS where petroleum activities are conducted.

CO₂e emissions¹
Net tonnes CO₂ in scopes 1 and 2

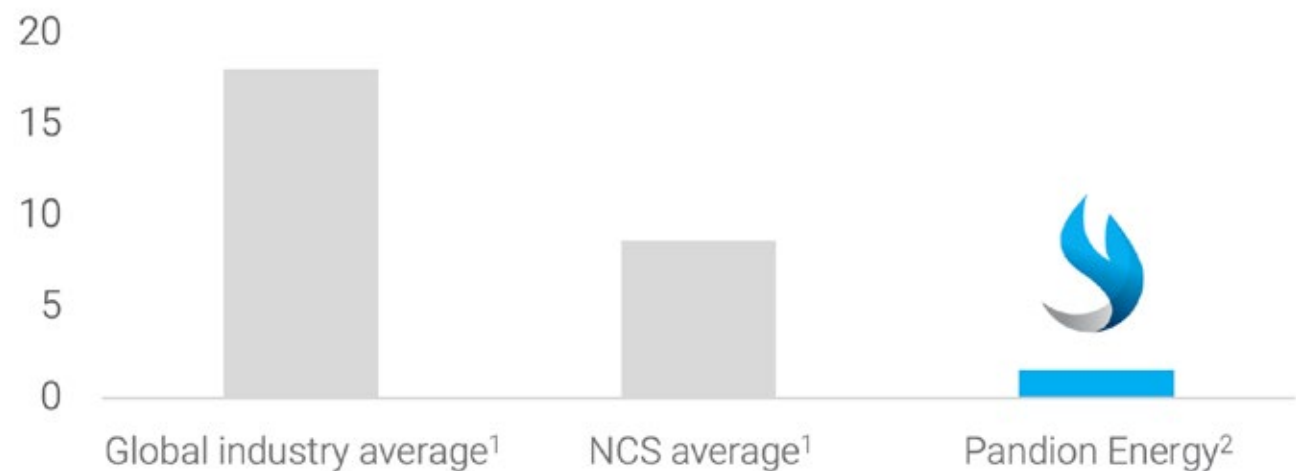


¹ Pandion Energy net equity basis from production assets and exploration and appraisal wells

In 2021, scopes 1 and 2 included emissions from exploration and appraisal drilling of 3 wells on two different production licenses and activities on the Valhall and Hod producing fields, apportioned according to Pandion Energy’s equity share. The main source of emissions from exploration and appraisal drilling were related to power generation from combustion of liquid fuel (diesel) by the drilling rigs. The main sources of emissions from Valhall and Hod are combustion of liquid fuel by various utilities with diesel engines, flaring and periodical power generation on mobile drilling rigs conducting activities on the field. Flaring is generally very limited on NCS and only permitted for safety purposes, such as emergency shutdowns. All reported emissions to air in 2021 were within the relevant permit requirements. The fluctuations in annual emissions the last three years are mainly attributable to activity level.

The Valhall area has been powered from shore since 2012, originally eliminating annual turbine emissions of approximately 320 000 tonnes of CO₂ and 600 tonnes of NO_x. The electricity is acquired from the national power grid in Norway which is principally underpinned by hydropower and other renewable energy sources. As Norway is a historic net exporter of electric power, the associated CO₂ emissions are close to zero. Additionally, the Valhall field centre has been set up to accommodate long term rig hires with electricity procured through the 294 km cable from Lista on the coast of Norway. In 2017, the jack up rig, Maersk Invincible, was the first mobile drilling rig in the world to run using onshore power. This delivered further emissions reduction of 15 000 tonnes CO₂ and 168 tonnes NO_x annually.

Carbon Intensity
Kg CO₂ per boe produced



¹ NOROG/IOGP, 2020

² Pandion Energy net Equity Basis production, Scope 1 and 2 emissions; 2020: 1.1 kg CO₂/boe; 2021: 1.5 kg CO₂/boe

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The attention paid to scope 3 emissions is growing and, from 2022, Pandion Energy will be putting increased emphasis on mapping the indirect GHG emissions. As a licensee, the company is reliant on working closely with the operators on emission reduction, and is pleased to see the strategic priority given to reducing Scope 3 emission among its operator partners. The operator of Valhall and Hod has included Scope 3 emissions in its corporate climate strategy from 2020 and is in a continuous process of mapping those related to its operations. Only the emissions identified and reported by the operator so far are included in this report. The Scope 3 emissions include upstream categories 1-8 as specified by the GHG protocol.

Scopes 1, 2 and 3 for operations controlled by Pandion Energy are relatively immaterial when compared with asset emissions, therefore its GHG emissions for its office activities and travel were not measured.

Biodiversity

As a licensee on NCS, Pandion Energy participates in operations mainly concentrated in marine surroundings. It is therefore important that the licensees are committed to working continuously on protecting and conserving the associated ecosystems and their species in order to safeguard genetic biodiversity.

Norway signed up to the convention on biological diversity in 1993, and the NEA enforces strict regulations with the aim to ensure that water quality in marine areas helps to preserve species and ecosystems. The NCS is among the most extensively mapped, analysed and ecologically managed marine areas in the world. Biodiversity priority areas are identified in the regional management plans applied by the Norwegian government since 2006.

These plans set out the operational conditions for all activities in each area of the NCS, including petroleum operations. They also identify protected areas as specified by the International Union for Conservation of Nature (IUCN), where no or only limited industrial activity is permitted. Furthermore, area sensitivity is weighed against industrial activities, local interests, international treaties and goals to determine the conditions for permitting industrial activities. Operational conditions are defined for each licence, such as drilling restrictions, requirements for extended biological monitoring, and additional oil spill response measures.

The Valhall area, where Aker BP is the operator, is currently the only producing asset in Pandion Energy’s portfolio. Biodiversity protection measures are described and enshrined in the operator’s environmental strategy and environmental management system. These include:

- minimising impacts on biodiversity
- considering biodiversity in planning and decommissioning activities
- preventing and reducing loss or degradation of ecosystems
- preventing and minimising impacts on sensitive species and population dynamics
- performing environmental analyses and risk assessments as well as assessing impacts on birds, fish and marine mammals when planning activities
- monitoring activities.

In order to verify the environmental impact on biodiversity from petroleum activities, the oil and gas industry in Norway performs sediment analyses and water-column monitoring at regular intervals to detect possible negative impacts and to implement new measures as required.

Water and effluents

Pandion Energy’s net production is not located in water-stressed environments and water withdrawal and water scarcity are not considered material issues for the operators on the NCS. Fresh water is used for drinking purposes, in accommodation and in some drilling operations. Seawater is used for operations such as cooling, firefighting purposes and pressure support for the reservoir. The main water management issue is operational discharges to sea. The general approach to generating and handling effluents aims at the lowest possible environmental impact in accordance with environmental strategies set for the field, and the following order of priority applies:

1. preventing occurrence
2. reuse/recycling/reinjection
3. reduction
4. treatment and disposal/discharge.

Minimum standards are set for the quality of effluent discharge. Produced water discharged to sea is regulated by the NEA with a threshold value of 30mg of oil per

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litre of produced water per month (weighted average). Produced water on Valhall is either reinjected into the reservoir for pressure support or discharged to the sea after sufficient treatment in accordance with the best available techniques and regulatory requirements. In 2021, the average oil concentration was 16.46mg of oil per litre for the Valhall and Hod fields.

Other water management actions include prioritised substitution of chemicals with the most adverse properties to less hazardous substitutes. Use and discharges of chemicals are also regulated by the field specific permits issued by the NEA.

Oil spill preparedness plans are established by the operators for the specific petroleum activities based on environmental risk assessment and regulatory requirements before commencement of operations. The oil spill response measures involve trained personnel who work purposefully to prepare for and mitigate possible discharges. All the operators of the licenses where Pandion Energy is licensee participate actively in the Norwegian Clean Seas Association for Operating Companies (NOFO). NOFO is specially trained to manage oil spill response operations and assumes a key role with regard to mitigation measures and oil spill recovery at sea in cases where member companies are responsible for an oil spill.

No oil spills occurred from Pandion Energy assets in 2021. One incident on Valhall resulted in discharge of chemicals greater than 0.10m³ in 2021. The incident was related to the deluge system and resulted in discharge of 2.20m³ firefighting foam (chemical categorised as yellow).

Waste

Operational activities in Pandion Energy’s assets are based offshore, where all significant production waste, both hazardous and non-hazardous, is generated. The largest fractions of hazardous waste, in terms of weight, come from drilling operations. When wells are drilled, drill cuttings contaminated with drilling fluids are carried back to the surface. All production waste, such as drilling mud and drill cuttings, is dealt with using the same waste-handling hierarchy described for water and effluent.

Oil-based drilling mud is reused for as long as the technical quality of the mud remains intact. In other cases, the mud is sent onshore for treatment and disposal.

Such mud contains a water fraction that is treated prior to discharge, and the volumes are controlled under government permits held by the waste disposal contractor. Both hazardous and non-hazardous waste are transported to land. The majority of the waste is handled in Norway and the regulatory rules are followed.

Another source of waste is decommissioned offshore installations. The Valhall and Hod fields are undergoing comprehensive modernisation, including the removal of obsolete platforms. In 2021, the QP jacket on Valhall was removed. 98 per cent of the total jacket weight was recycled at Aker Solutions Yard in Stord. Since the quality of the steel in jackets is high, it is blended in steel mills with other qualities to form new products. All final disposal of waste categories is tracked and documented with receiving facility and weights. The QP topside was removed in 2019, the final report demonstrated a recycling rate of 90 per cent of the total weight.



Social impact



Pandion Energy values the unique contributions of its employees and believes that a diverse and inclusive workforce enhances deliveries and accomplishments. Further, health and safety management are critical in the oil and gas industry and the company places great emphasis on ensuring that operations conducted in its licences are performed without harm to people involved. Regarding human rights a risk-based approach is always considered related to new investment opportunities, for purchases of material goods and services.

Human rights

Pandion Energy is committed to the protection of internationally recognised human rights and fair and ethical work practices. It has zero tolerance of modern slavery and child labour in any parts of its business and supply chain. All workers must be ensured safe, secure and healthy working conditions, including working hours, as well as wages and benefits that meet or exceed national legal standards. The workplace must be free from any form of harsh or inhumane treatment. All applicable laws and regulations on the above-mentioned issues must be complied with. The company’s position on modern slavery and child labour is covered in the working conditions section of its code of conduct.

The company operates in a low-risk environment for human rights abuse, since all its assets are located in Norway. Furthermore, the majority of the subcontractors and vendors providing goods and services to its assets are also based in Norway or in other low-risk countries. However, Pandion Energy is aware of potential human and labour rights risks that may occur in some parts of the industry and further down the supply chains, and takes a risk-based approach when considering potential human rights issues related to material contracts under the joint operating agreements.

Suppliers and business partners

Pandion Energy’s business partners and suppliers are essential to its ability to do



business, but can also expose it to reputational, operational and legal risk. The company expects its business partners and suppliers to comply with applicable laws, respect internationally recognised human rights, and adhere to the ethical standards outlined in its code of conduct when conducting business with or on behalf of Pandion Energy.

Risk is managed through in-depth knowledge of the company’s business partners, suppliers and markets. Pandion Energy seeks to monitor the activities and performance of its business partners in line with the assessed risk to secure compliance with its code of conduct. Applying a risk-based approach, the company will perform third-party due diligence of business partners, suppliers or counterparties where appropriate.

No cases of human rights issues were reported in 2021.

Diversity and employment

Each member of the Pandion Energy team is valued, and the company is committed to providing an environment free from any form of discrimination, abuse, harassment or intimidation by or towards its employees or others affected by its operations. The company’s values define the way people work in Pandion Energy. Furthermore, the

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company aims to be recognised for positive energy, equality and professionalism, and will treat everyone with fairness, respect and dignity.

Pandion Energy values the unique contributions of its employees and believes that a diverse and inclusive workforce enhances deliveries and accomplishments. The company aims to maintain a working environment with equal opportunities for all, based on performance and irrespective of gender, age, religion, ethnicity, sexual orientation, disability or any other protected status. Its experience is that quality and diversity lead to enhanced decision-making based on a variety of perspectives and understanding of risk.

The E&P industry is traditionally male dominated. Women comprise 30 per cent of the Pandion Energy technical team, whose members also have a wide range of experience – spanning from eight to more than 40 years. Pandion Energy has been able to attract a rich variety of talent, concentrating solely on professional

achievements and an explicit culture of equality and diversity. The company does not tolerate any discrimination of colleagues or others affected by its business.

In 2021, 36 per cent of the employees were female, compared with 38 per cent a year earlier. Women made up 50 per cent of the management team, while one of six directors is female.

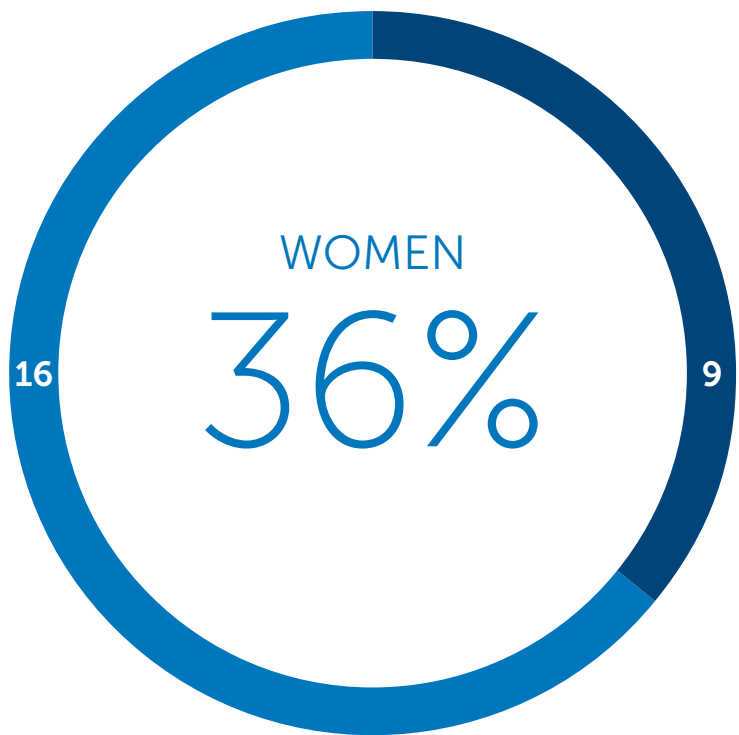
Harassment and intimidation

Courtesy and respect are important aspects of a healthy working environment and sound business dealings. Pandion Energy expects all employees to treat everyone they come into contact with through work or work-related activities in a respectful manner. It will not tolerate any verbal or physical conduct that harasses others, disrupts others’ work performance or creates a hostile work environment.

No cases of harassment or intimidation were reported in 2021.

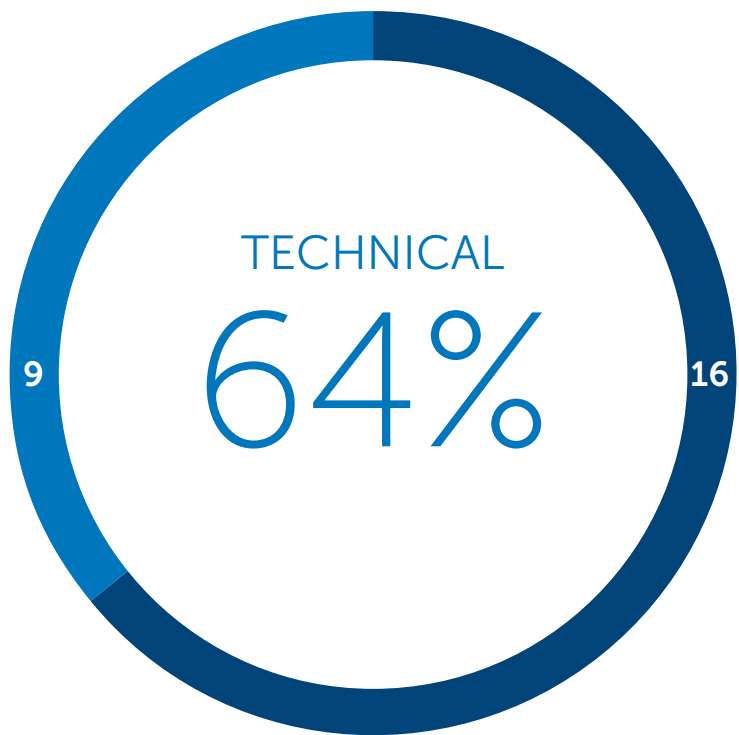
Gender

- Female
- Male



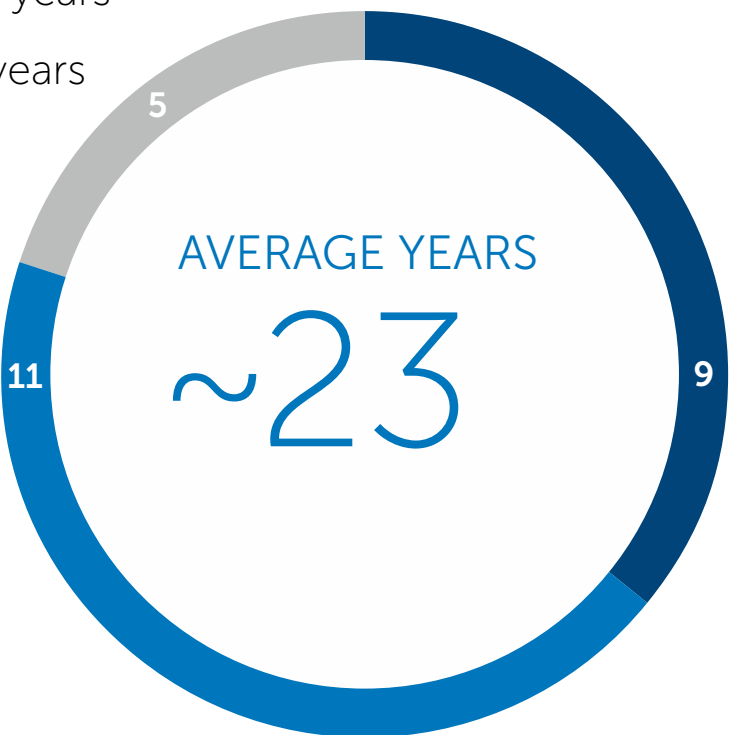
Business / Technical staff

- Technical
- Business



Experience

- 5-10 years
- 10-19 years
- 30+ years



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Health and safety

Health and safety management is critical in the oil and gas industry, where operations can affect communities and the workforce. No one should be harmed or injured while working at or on behalf of Pandion Energy.

Major accident risk

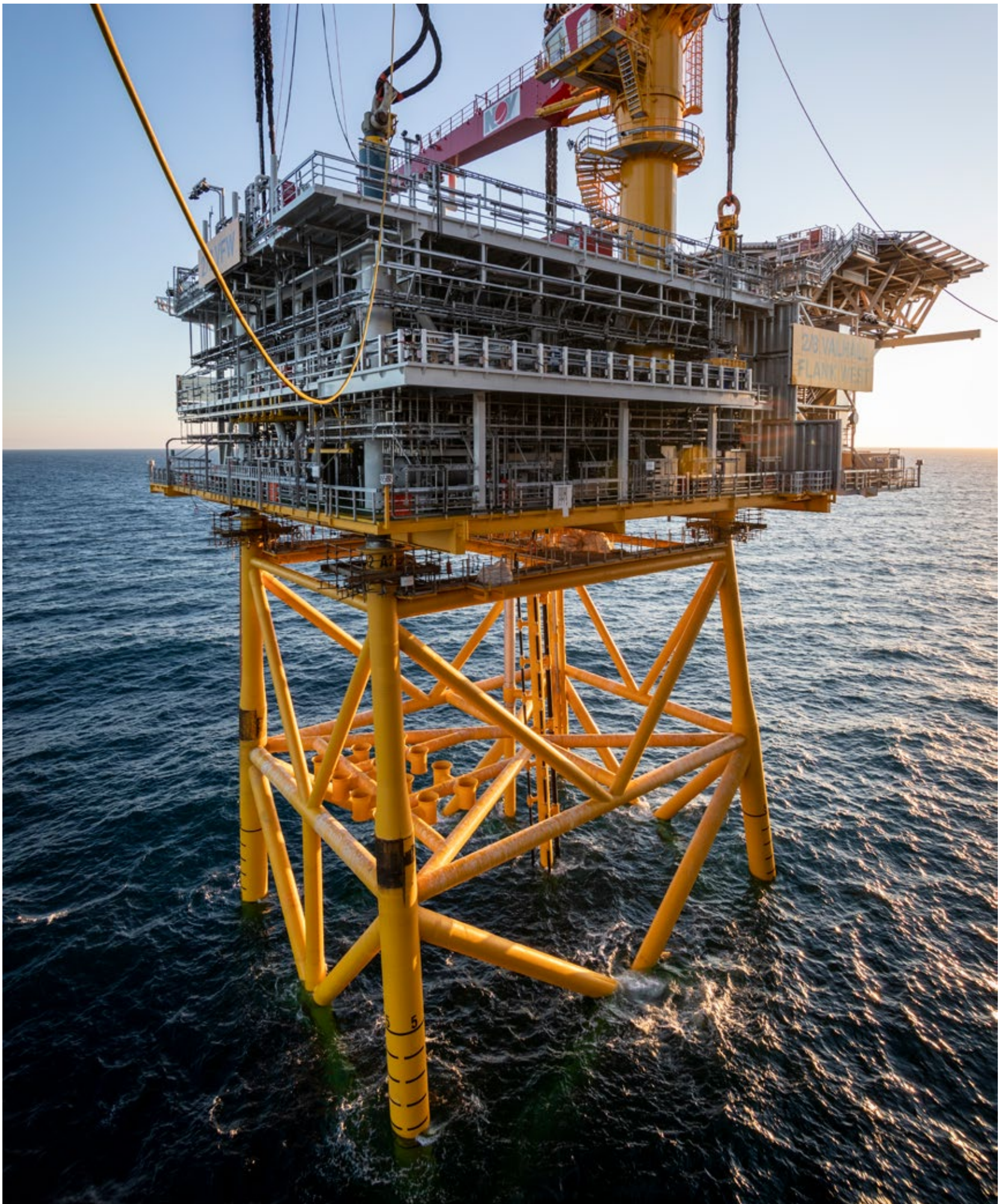
Pandion Energy recognises the risks associated with the company’s operational assets. The risk of major operational incidents is always present, since drilling, production and decommissioning activities will never be completely risk-free. Regulation of activities on the NCS provides a sound framework for handling these risks, and the company takes an active and responsible approach as a partner.

As a licensee, the company places great emphasis on ensuring that operations conducted on its licences are performed without harm to people involved. No task is so important that it has to be performed with an unacceptable risk to health and safety. As part of its “see to it” duty, the company reviews the operators’ HSE plans, risk assessments and health and safety reporting on a regular basis.

All operational activities in Pandion Energy’s licenses in 2021 were conducted without serious incidents, but three minor medical treatment incidents were recorded at Valhall, which shows room for improvement. The operator and Pandion Energy both agree that no one shall be injured working on our behalf.

Sickness absence

Sickness absence among Pandion Energy’s employees in 2021 was 1.38 per cent, compared with 2.44 per cent the year before. Since the company has relatively few employees, sickness absence by just one or two people can significantly affect the percentage. Pandion Energy seeks to keep sickness absence low by constantly improving working conditions. No work-related injuries were suffered by its employees in 2021.



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Climate change*

Scope 1	Note	2021	2020	2019	Units
Direct GHG emissions	1	4,068	4,570	6,192	tonnes CO ₂ e
Third party verified direct GHG emissions	2	2,902	2,228	5,209	tonnes CO ₂ e
CO ₂ (Carbon dioxide)		4,043	4,545	6,174	tonnes
CH ₄ (Methane)		17	25	18	tonnes CO ₂ e
Scope 1					
Indirect GHG emissions	3	329	-	-	tonnes CO ₂ e
CO ₂ intensity					
Equity share CO ₂ intensity	4	1.5	1.1	3.3	kg CO ₂ /boe
Net production		5,152	5,639	4,336	boepd
Scope 3					
Other indirect GHG emissions	5	4,729	not reported	not reported	tonnes CO ₂ e

* Unaudited - see page 84

Notes to sustainability data



NOTE 1 DIRECT GHG EMISSIONS

Scope 1 emissions include direct emissions from petroleum activities in Pandion Energy’s production licences apportioned according to its equity share in those licences. Activities and licenses included are listed below.

As Pandion is not an operator, it does not have the direct authority to monitor and record the consumption. The reported data is based on the operators’ data reported to the Norwegian Environmental Agency (NEA) with a verification statement issued by an independent third party for producing fields (Valhall and Hod)¹. Internal quality assessment is applied to ensure the accuracy of the data reported from the operators.

NEA conduct verifications of all reported environmental data post publication of this report. This may result in minor variations of the data at a later stage.

Year	Assets	Activities	Equity Share	Reporting Source	Assurance report ¹
2021 2020 2019	Valhall & Hod (PL 006 B, 003 B, 033)	Drilling, production, development, abandonment	10 %	Annual field emissions report Annual climate quota report	YES
2021	PL 617	Exploration drilling	20 %	Annual exploration emissions report	NO
2021	PL 820 S	Appraisal drilling	12,5%	Annual exploration emissions report	NO
2020	PL 263 D/E	Exploration drilling	20 %	Well specific emissions data reported within licence	NO
2020	PL 891	Exploration drilling	20 %	Well specific emissions data reported within licence	NO
2019- 2020 ²	PL 820 S	Exploration drilling	10 %	Annual exploration emissions report	NO
2019	PL 842	Exploration drilling	30 %	Well specific emissions data reported within licence	NO
2019	PL 636	Development drilling	10 %	Annual exploration emissions report	NO

¹ 3rd party verification report of the Annual climate quota report as required by the NEA, EU ETS verification report
² Operation was partially conducted in 2019. Total emissions reported in 2020.

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NOTE 2 THIRD PARTY VERIFIED DIRECT GHG EMISSIONS

Production assets only; High Assurance to the following standard: European Union Emissions Trading System (EU ETS).

NOTE 3 INDIRECT GHG EMISSIONS IN SCOPE 2

Scope 2 emissions include market-based emissions from Valhall and Hod on a net equity basis.

Valhall receives power from shore from the national grid in Norway which is principally underpinned by hydropower and other renewable energy sources. As Norway is a historic net exporter of electric power, the associated CO₂ emissions are close to zero.

Scope 2 emissions reported in 2021 are related to 2 per cent non-renewable energy sources in the Norwegian power supply market. Climate declaration factor from NVE used to calculate emissions is 8gCO₂e/kwh (2020 factor is used, as the 2021 factor is not available until mid-2022).

NOTE 4 CO₂ INTENSITY

CO₂ intensity is calculated on the basis of net equity production and associated scope 1 and 2 CO₂ emissions. Pandion Energy’s scope 2 emissions are relatively immaterial when compared to the overall portfolio, therefore its GHG emissions for its office activities were not measured.

NOTE 5 INDIRECT GHG EMISSION IN SCOPE 3

Other indirect emissions from third party sources that occur in the value chain resulting from Pandion Energy’s activities.

Scope 3 emissions include mapped scope 3 categories allocated to the Valhall and Hod on an net equity basis. Mapped scope 3 categories include:

- | | |
|------------|---|
| Category 1 | Purchased goods and services (cement wells) |
| Category 2 | Capital goods (steel wells and steel) |
| Category 3 | Fuel and energy related activities, not included in scopes 1 or 2 (ships and vessels) |
| Category 4 | Upstream transportation and distribution (platform supply vessels) |
| Category 5 | Waste generation in operations (incineration) |
| Category 6 | Business travel (not material, not applicable) |
| Category 7 | Employee commuting (helicopter transportation) |
| Category 8 | Upstream leased assets (not material, not applicable.) |

Pandion Energy’s scope 3 emissions in category 6 business travel are relatively immaterial when compared to the overall portfolio, therefore its GHG emissions from company travel were not measured.

UNAUDITED

This section contains non-financial measures that are subject to measurement uncertainties resulting from inherent limitations in the methods used to determine the figures stated. Choosing different but acceptable measurement techniques can lead to significantly different results and precisions. The main period of information disclosure of this section is from 1 January 2021 to 31 December 2021, unless otherwise specified. Pandion Energy reserves the right to update its measurement techniques and methods in the future.

As Pandion Energy is not an operator, it does not have direct authority to monitor and record operational performance data within the production licences. Internal quality assessment is applied to ensure the accuracy of the data reported from the operators.

Certain economic and market information contained in this section has been obtained from published sources and/or prepared by other parties. While such sources are believed to be reliable, such information has not been independently verified by Pandion Energy.

No audit or independent assurance of this section has been conducted.

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	Section in report
Governance	
a) Describe the board’s oversight of climate-related risks and opportunities.	Page 24, 65-66, 71
b) Describe management’s role in assessing and managing climate-related risks and opportunities.	Page 69, 71
Strategy	
a) Describe the impact of climate related risks and opportunities on the organization’s businesses, strategy, and financial planning.	Page 26, 71-73
b) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.	Page 26, 71-73
c) Describe the resilience of the organization’s strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	Page 70-73
Risk Management	
a) Describe the organisation’s processes for identifying and assessing climate-related risks.	Page 71
b) Describe the organisation’s processes for managing climate-related risks.	Page 73
c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation’s overall risk management.	Page 24, 69
Metrics and targets	
a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	Page 76-77
b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.	Page 82
c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	Page 73-74

Abbreviations



ABM	Alternative Bond Market
boe	barrels of oil equivalents
boepd	barrels of oil equivalent per day
CCUS	Carbon Capture, Utilisation and Storage
CEO	Chief Executive Officer
CO₂	Carbon Dioxide
CO₂e	Carbon Dioxide equivalents
E&P	Exploration & Production
ESG	Environmental, Social, Governance
EUA	European Union Allowances
EU ETS	European Union’s Energy Trading System
GHG	Greenhouse Gas
HSE	Health, Safety, Environment
IEA	International Energy Agency
IUCN	International Union for Conservation of Nature
MODU	Mobile Offshore Drilling Unit
Mtoe	Million tonnes of oil equivalent

NCS	Norwegian Continental Shelf
NEA	Norwegian Environmental Agency
NOFO	Norsk oljevernforening for operatørselskap (Norwegian Clean Seas Association for Operating Companies)
NVE	Norges vassdrags- og energidirektorat (The Norwegian Water Resources and Energy Directorate)
NZE2050	Net Zero by 2050 Scenario
PL	Production License
Scope 1	Direct emissions from owned or controlled sources
Scope 2	Indirect emissions from the generation of purchased energy
Scope 3	Indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions
SDS	Sustainable Development Scenario
PV	Photovoltaic
TCFD	Task Force on Climate-Related Financial Disclosure
TWh	Terawatt-hours
UN	United Nations
US FPCA	U.S. Foreign Corrupt Practices Act
VP	Vice President
WEO	Word Energy Outlook





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