



PANDION ENERGY

A sharp eye for the NCS opportunities

Interim Financial Statements (unaudited)

First quarter 2018

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- Interim Financial Statements (unaudited)



Introduction



General information

These interim financial statements for Pandion Energy AS (“the Company”) have been prepared to comply with the **Revolving exploration finance facility agreement dated 13 November, 2017**, the **Borrowing base facility agreement dated 9 April 2018** and **Bond terms for senior unsecured bond dated 3 April 2018**. These interim financial statements have not been subject to review or audit by independent auditors.

Change in functional currency

IAS 21 states that an entity is required to determine a functional currency based on the primary economic environment in which it operates and generally records foreign currency transactions. Pandion Energy has assessed that the purchase of Valhall and Hod completed 22 December 2017 triggered a change in functional currency from NOK to USD. Main drivers for the change, effective from 1 January 2018 were the associated revenues from sale of crude oil in USD and new financing in USD.

Introduction



Accounting principles

These interim financial statements have been prepared on the bases of simplified IFRS pursuant to the Norwegian Accounting Act §3-9 and regulations regarding simplified application of IFRS issued by the Norwegian Ministry of Finance on 3 November 2014, thus the interim financial statements do not include all information required by simplified IFRS and should be read in conjunction with the Company annual financial statement as at 31 December 2017.

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

As described in the company's annual financial statements for 2017, two new accounting standards entered into force from 1 January 2018, IFRS 9 and IFRS 15. The implementation of the new standards have not had any material impact on the company's financial statements.

As this is the first interim financial statements of Pandion Energy, there are no comparable quarterly figures for earlier periods in the report. 2017 was the first year of operations for the Company, with no operating income or operating expenses during 2017.

We refer to the 2017 Financial Statements for further detailed information as to the accounting principles.

Summary of the quarter



Pandion Energy reported total income of USD 27.1 million and operating profit of USD 8.6 million for the first quarter 2018. Net profit was USD 4.1 million.

Total income of USD 27.1 million was driven by revenue related to the Valhall and Hod fields, mainly from oil sales. Realised oil price was USD 67.3 per bbl.

The operating expenses amounted to USD 14.4 million, partly driven by the cost related to oil stock from the acquisition of a 10 % interest in the producing Valhall and Hod fields. The oil stock from the acquisition was valued at fair value which was higher than the expected production cost per bbl.

Summary of the quarter



Operational review

Production from the Valhall and Hod fields was 3.8 kboed net to Pandion during first quarter. The production was lower than forecasted, caused by two periods of adverse weather conditions with negative impact on regularity, and a corresponding production efficiency of 84 percent for the quarter. The 2018 IP drilling programme at Valhall consists of three new wells. The first of these wells is currently being stimulated and is planned to start production in the second quarter. The second well is currently being drilled, and is expected to start production in the third quarter. Meanwhile, the Maersk Invincible rig continued the successful P&A campaign at Valhall.

The Ministry of Petroleum and Energy approved the plan for development and operation (PDO) for Valhall Flank on 23 March 2018, where Pandion Energy has a 10% interest. The project aim to continue the development of the Tor formation on the western flank of the Valhall field. Net to Pandion capital expenditures are estimated to NOK 550 million over 2018-2020.

In January 2018 Pandion Energy was awarded two new prospective exploration licenses, PL 912 and PL 929 under the 2017 Norwegian APA (Awards in Pre-defined Areas) License Round on the NCS. Both licenses are located in the Norwegian North Sea.

Summary of the quarter



Financing

On 27 March 2018 an extraordinary General Meeting in the Company passed a resolution of share capital increase of NOK 317 million by way of shareholder loan conversion.

Following the acquisition of 10% working interest in the Valhall and Hold fields the Company commenced a process securing external funding completed early April 2018.

Hedging

The Company has entered into an extensive oil price hedging programme to reduce the risk related to oil prices. At the end of the first quarter Pandion had put in place a hedging programme through Q3 2019, at strike price USD 60/bbl (Q2 and partly Q3 2018) and USD 55/bbl (partly Q3 2018 through Q3 2019).

Statements of income 31 March 2018



Statements of income

(Amounts in USD'000)	Note	Q1 2018
Revenues		27 675
Other gains/(losses)		(582)
Total revenues and income		27 092
Operating expenses		(14 446)
General and administrative expense		(516)
Depreciation, amortisation and net impairment losses	1	(2 632)
Exploration expenses		(908)
Profit from operating activities		8 591
Net financial items		(2 547)
Profit before income tax		6 043
Income tax		(1 916)
Net profit		4 127

Statements of income 31 March 2018



Statements of comprehensive income

(Amounts in USD'000)	Note	Q1 2018
Net income		4 127
Currency translation adjustments		-
<i>Items that may be subsequently reclassified to the Statement of income</i>		
Other comprehensive income		-
Total comprehensive income		4 127

Balance sheet statements 31 March 2018



Assets

(Amounts in USD'000)	Note	Q1 2018	2017 YTD
Property, plant and equipment	1, 3	159 844	129 901
Intangible assets	2, 3	179 979	203 298
Deferred tax assets		24 777	27 342
Prepayments and financial receivables		152	144
Financial asset at fair value through profit or loss		2 401	-
Total non-current assets		367 152	360 684
Inventories		8 072	3 100
Trade and other receivables		13 850	7 591
Tax receivable from exploration refund		11 476	10 827
Cash and cash equivalents		10 274	8 965
Total current assets		43 672	30 482
Total assets		410 824	391 167

Balance sheet statements 31 March 2018



Equity and liabilities

(Amounts in USD'000)	Note	Q1 2018	2017 YTD
Share capital	4	110 893	72 509
Other equity	4	4 127	(2 599)
Total equity		115 020	69 911
Asset retirement obligations	5	136 423	143 198
Total non-current liabilities		136 423	143 198
Asset retirement obligations	5	39 000	39 000
Trade, other payables and provisions		13 318	13 313
Interest bearing loans and borrowing		12 386	5 618
Liabilities to related parties		94 677	120 128
Total current liabilities		159 381	178 058
Total liabilities		295 804	321 256
Total equity and liabilities		410 824	391 167

Statements of cash flows



<u>(Amounts in USD'000)</u>	<u>Q1 2018</u>
Income before tax	6 043
Depreciation, amortisation and net impairment losses	2 632
Accretion of asset removal liability	1 737
(Increase) decrease in value of financial asset at fair value through profit or loss	582
(Increase) decrease operational financial asset	(2 983)
Asset removal cost	(8 512)
<u>(Increase) decrease in working capital</u>	<u>(11 235)</u>
<u>Cash flows used in operating activities</u>	<u>(11 735)</u>
Capital expenditures and investments in furniture, fixtures and office machines	-
Capital expenditures and investments in oil and gas assets	(7 337)
Capital expenditures and investments in exploration and evaluation assets	(1 920)
<u>Cash flows used in investing activities</u>	<u>(9 256)</u>
Share capital contribution	40 982
Increase interest bearing loans and borrowing	6 768
<u>Decrease liabilities to related parties</u>	<u>(25 451)</u>
<u>Cash flows provided by (used in) financing activities</u>	<u>22 300</u>
<u>Net increase (decrease) in cash and cash equivalents</u>	<u>1 309</u>
<u>Cash and cash equivalents at the beginning of the period</u>	<u>8 965</u>
<u>Cash and cash equivalents at the end of the period</u>	<u>10 274</u>

Notes to the interim financial statements



NOTE 1 PROPERTY, PLANT AND EQUIPMENT

	Oil and gas assets	Tools and equipment	Total
(Amounts in USD'000)			
	-		
Carrying amount at 31 December 2017	129 815	86	129 901
Additions	7 336	-	7 336
Transfers	25 238	-	25 238
Carrying amount at 31 March 2018	162 389	86	162 475
Depreciation	2 623	9	2 632
Carrying amount at 31 March 2018	159 766	77	159 844
Estimated useful lives (years)	UoP	3-10	
Production plants oil and gas are depreciated according to unit of production method (UoP)			

Notes to the interim financial statements



NOTE 2 INTANGIBLE ASSETS

	Goodwill	Exploration and evaluation assets	Total
(Amounts in USD'000)			
Carrying amount 31 March 2018	124 785	78 513	203 298
Capitalised license costs	-	1 920	1 920
Transfers	-	(25 238)	(25 238)
Carrying amount 31 March 2018	124 785	55 194	179 979

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

NOTE 3 IMPAIRMENTS

Impairment testing

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

No impairment indicators have been identified at the end of first quarter 2018.

Notes to the financial statements



NOTE 4 EQUITY AND SHAREHOLDERS

(Amounts in USD'000)

Shareholders' equity at 31 December 2017	69 911
Share issue	-
Share issue - unregistered	40 982
Net income	4 127
Shareholders' equity at 31 March 2018	115 020

Share capital of NOK 911 921 294 comprised 911 921 294 shares at a nominal value of NOK 1,00. The share issue amounting to USD 40 982 225 was registered in the Register of Business Enterprises on 4 April 2018.

Notes to the financial statements



NOTE 5 ASSET RETIREMENT OBLIGATIONS

	Asset retirement obligations
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(Amounts in USD'000)	
Non-current portion at 31 December 2017	143 198
Current portion at 31 December 2017	39 000
Asset retirement obligations at 31 December 2017	182 198
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New or increased provisions	-
Decrease in estimates	-
Amounts charged against asset retirement obligations	(8 512)
Effects of change in the discount rate	-
Reduction due to divestments	-
Accretion expenses	1 737
Asset retirement obligations at 31 March 2018	175 423
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Current portion at 31 March 2018	39 000
Non-current portion at 31 March 2018	136 423



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