



# A sharp eye for the NCS opportunities

Interim Financial Statements (unaudited)

Second quarter 2018

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# Introduction



## General information

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

## 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 16.9 million and operating profit of USD 6.0 million for the second quarter 2018. Net loss was USD 1.1 million. Q2 EBIT ended at USD 6.0 million with lower than expected revenue and lower costs (driven by the reduced sales)

Total income of USD 16.9 million was driven by revenue related to the Valhall and Hod fields, mainly from oil sales. Revenues were positively impacted by increased oil price. Averaged realised oil price was USD 75.7 per bbl. Increased oil prices were offset by lower oil sales (234 kboe), significantly lower than production mainly due to a planned lifting in June that were completed early July. Inventories at quarter end are higher than estimated.

The operating expenses amounted to USD 5.9 million.

Investments in fixed assets amounted to USD 12.1 million, driven by investments in the Valhall field, mainly Flank West and IP drilling program.

Abandonment expenditures were USD 7.7 million, driven by the ongoing campaign to plug and abandon old wells on the Valhall field.

The company's interest-bearing debt was USD 114.1 million at the end of the second quarter.

## **Operational review**

Production from the Valhall and Hod fields was 3.6 thousand barrels of oil equivalents per day («mboepd») net to Pandion during second quarter. The production was 2% lower than first quarter. The first two wells of the 2018 IP drilling program have been successfully drilled, but production start was delayed due to technical challenges with the drilling and stimulation operations, and is now expected to take place during the third quarter. The third IP well is expected to be drilled by the end of the year. Production was also affected by a planned maintenance shut down in June. The Maersk Invincible rig has continued the successful P&A campaign at Valhall, and the rig will in the fourth quarter be re-allocated to production drilling. The development project at Valhall Flank West is progressing according to plan.

# Summary of the quarter



## **Financing**

On 9 April 2018, the USD 150 million RBL facility was signed with BNP Paribas, DNB, ING and SEB. The facility has a 7-year final maturity (April 2025). The RBL facility has an uncommitted accordion of USD 150 million to provide room for financing of additional acquisitions and new development opportunities.

On 4 April 2018, Pandion completed its debt issue of a NOK 400 million senior unsecured bond with maturity in April 2023. The company entered into a cross currency swap for hedging the FX risks from the NOK bond as well as an interest rate swap for hedging the interest rate risk from the bond swapped to USD.

## **Hedging**

The Company has focused on securing liquidity and has entered into an extensive oil price hedging program to reduce the risk related to oil prices. At the end of the second quarter Pandion had put in place a hedging programme through 2019. >80% of 2018 pre-tax volumes hedged at USD 57/bbl (USD 55/bbl net of costs) and >70% of 2019 volumes hedged at USD 55/bbl (USD 51/bbl net of costs). The entire existing hedging program is based on put options. Following the increase in the long term oil prices during Q2 the Company had a loss from hedging presented as other gains/(losses).

# Statements of income 30 June 2018



## Statements of income

(Amounts in USD`000)	Note	Q2 2018	2018 YTD
Revenues		19 661	47 335
Other gains/(losses)		(2 762)	(3 345)
<b>Total revenues and income</b>		<b>16 898</b>	<b>43 990</b>
Operating expenses		(5 915)	(20 482)
General and administrative expense		(228)	(743)
Depreciation, amortisation and net impairment losses	1	(2 983)	(5 615)
Exploration expenses		(1 774)	(2 561)
<b>Profit from operating activities</b>		<b>5 999</b>	<b>14 589</b>
Net financial items		(3 241)	(5 788)
<b>Profit before income tax</b>		<b>2 758</b>	<b>8 801</b>
Income tax		(5 521)	(7 437)
<b>Net profit</b>		<b>(2 763)</b>	<b>1 365</b>

# Statements of income 30 June 2018



## Statements of comprehensive income

<u>(Amounts in USD'000)</u>	<u>Note</u>	<u>Q2 2018</u>	<u>2018 YTD</u>
Net income		(2 763)	1 365
Currency translation adjustments		-	-
<i>Items that may be subsequently reclassified to the Statement of income</i>			
Other comprehensive income		-	-
Cash Flow hedges			
Net losses arising from hedges recognized in OCI		(4 117)	(4 117)
Net amount reclassified to profit and loss		2 096	2 096
Tax on items recognized over OCI		465	465
Other comprehensive income		(1 556)	(1 556)
Total comprehensive income		(4 319)	(191)



# Balance sheet statements 30 June 2018



## Assets

(Amounts in USD'000)	Note	2018 YTD	2017 YTD
Property, plant and equipment	1, 3	210 256	129 901
Intangible assets	2, 3	139 334	203 298
Deferred tax assets		17 202	27 342
Prepayments and financial receivables		145	144
Financial asset at fair value through profit or loss		2 162	-
<b>Total non-current assets</b>		<b>369 098</b>	<b>360 684</b>
Inventories		10 773	5 200
Trade and other receivables		2 636	5 491
Tax receivable from exploration refund		13 995	10 827
Cash and cash equivalents		16 245	8 965
<b>Total current assets</b>		<b>43 648</b>	<b>30 482</b>
<b>Total assets</b>		<b>412 746</b>	<b>391 167</b>

# Balance sheet statements 30 June 2018



## Equity and liabilities

(Amounts in USD'000)	Note	2018 YTD	2017 YTD
Share capital	4	113 492	72 509
Other equity	4	(2 790)	(2 599)
<b>Total equity</b>		<b>110 702</b>	<b>69 911</b>
Asset retirement obligations	5	130 432	143 198
Interest bearing debt	6	102 274	-
<b>Total non-current liabilities</b>		<b>232 706</b>	<b>143 198</b>
Asset retirement obligations	5	39 000	39 000
Trade, other payables and provisions		14 376	13 313
Interest bearing loans and borrowing	6	11 846	5 618
Hedging derivatives		4 117	-
Liabilities to related parties		-	120 128
<b>Total current liabilities</b>		<b>69 339</b>	<b>178 058</b>
<b>Total liabilities</b>		<b>302 045</b>	<b>321 256</b>
<b>Total equity and liabilities</b>		<b>412 746</b>	<b>391 167</b>

# Statements of cash flows



(Amounts in USD'000)	Q2 2018	2018 YTD
Income before tax	2 758	8 801
Depreciation, amortisation and net impairment losses	2 983	5 615
Accretion of asset removal liability	1 678	3 415
(Increase) decrease in value of financial asset at fair value through profit or loss	2 762	3 344
(Increase) decrease in value of hedges reclassified to profit and loss	2 096	2 096
(Increase) decrease operational financial asset	(2 524)	(5 507)
Asset removal cost	(7 669)	(16 181)
(Increase) decrease in working capital	9 578	(1 657)
Cash flows used in operating activities	11 662	(73)
Capital expenditures and investments in furniture, fixtures and office machines	(5)	(5)
Capital expenditures and investments in oil and gas assets	(11 631)	(18 968)
Capital expenditures and investments in exploration and evaluation assets	(1 113)	(3 033)
Cash flows used in investing activities	(12 749)	(22 005)
Share capital contribution	-	40 982
Increase interest bearing obligations, loans and borrowing	101 733	108 501
Decrease in liabilities to related parties	(94 677)	(120 128)
Cash flows provided by (used in) financing activities	7 056	29 356
Net increase (decrease) in cash and cash equivalents	5 970	7 279
Cash and cash equivalents at the beginning of the period	10 274	8 965
Cash and cash equivalents at the end of the period	16 245	16 245

# 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	19 402	5	19 407
Transfers	66 563	-	66 563
Carrying amount at 30 June 2018	215 780	91	215 871
Depreciation	5 597	18	5 615
<b>Carrying amount at 30 June 2018</b>	<b>-</b>	<b>210 183</b>	<b>73</b>
			<b>210 256</b>

Estimated useful lives (years) UoP 3-10

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

# Notes to the interim financial statements

## NOTE 2 INTANGIBLE ASSETS

	Goodwill	Exploration and evaluation assets	Total
(Amounts in USD'000)			
Carrying amount at 31 December 2017	124 785	78 513	203 298
Capitalised license costs	-	2 599	2 599
Transfers	-	(66 563)	(66 563)
<b>Carrying amount 30 June 2018</b>	<b>124 785</b>	<b>14 549</b>	<b>139 334</b>

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 second quarter 2018.

# Notes to the financial statements

## NOTE 4 EQUITY AND SHAREHOLDERS

(Amounts in USD'000)

<b>Shareholders' equity at 31 December 2017</b>	<b>69 911</b>
Share issue	40 982
Share issue - unregistered	-
Net income	(191)
<b>Shareholders' equity at 30 June 2018</b>	<b>110 702</b>

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.

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

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

# Notes to the financial statements

## NOTE 5 ASSET RETIREMENT OBLIGATIONS

	Asset retirement obligations
(Amounts in USD'000)	
Non-current portion at 31 December 2017	143 198
Current portion at 31 December 2017	39 000
<b>Asset retirement obligations at 31 December 2017</b>	<b>182 198</b>
New or increased provisions	-
Decrease in estimates	-
Amounts charged against asset retirement obligations	(16 181)
Effects of change in the discount rate	-
Reduction due to divestments	-
Accretion expenses	3 414
Reclassification and transfer	-
Currency translation	-
<b>Asset retirement obligations at 30 June 2018</b>	<b>169 432</b>
Current portion at 30 June 2018	39 000
Non-current portion at 30 June 2018	130 432

# Notes to the financial statements

## NOTE 6 INTEREST BEARING DEBT

### Current liabilities

#### Revolving Exploration Loan Facility

	Currency	Utilised amount	Undrawn facility	Interest	Maturity	Carrying amount
				NIBOR		
At 30 June 2018	NOK	12 398	36 353	+ 1.25 %	Dec 2018	11 846

The total credit limit for the Company at 30 June 2018 was TNOK 400 000.

The Company signed a revolving Exploration Finance Facility Agreement on 13 November 2017 of TNOK 400 000. The facility is made available through the banks SEB and BNP Paribas, with SEB as lead manager. The availability period of the new facility is up to and including 31 December 2018 with an option to extend the revolving period with one year up to 31 December 2019



# Notes to the financial statements

## NOTE 6 INTEREST BEARING DEBT (cont)

### Non Current liabilities

#### RBL Facility Agreement

	Currency	Utilised amount	Undrawn facility	Interest	Maturity	Carrying amount
At 30 June 2018	USD	55 100	94 900	LIBOR + 3.5%	April 2025	53 004

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

The financial covenants are as follows:

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

# Notes to the financial statements

## NOTE 6 INTEREST BEARING DEBT (cont)

### Unsecured Bond

	Currency	Utilised amount	Undrawn facility	Interest	Maturity	Carrying amount
At 30 June 2018	NOK	50 967	-	10.61%	April 2023	49 270

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

Maturity profile based on contractual undiscounted cash flows

	2018
Less than 12 months	12 398
1 to 5 years	-
Over 5 years	106 067
<b>Total</b>	<b>118 465</b>



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