OKEA AS

Statement of Comprehensive Income

Amounts in NOK `000	Note	Q4 2018 (unaudited)	Q4 2017 (unaudited)	2018 (unaudited)	2017 (audited)
Revenues from crude oil and gas sales		97 206	34 248	149 761	38 429
Other operating income	7	48 658	-16 611	166 535	5 007
Total operating income		**145 864**	**17 637**	**316 296**	**43 435**
Production expenses		-11 258	-2 339	-18 347	-7 654
Exploration expenses		-36 601	-20 109	-74 782	-28 710
Depreciation, depletion and amortization		-39 361	-4 967	-57 297	-18 025
Employee benefits expenses		-18 334	7 336	-34 183	-11 707
Other operating expenses		-34 487	-8 220	-87 899	-33 128
Total operating expenses		**-140 041**	**-28 299**	**-272 509**	**-99 223**
Profit / loss (-) from operating activities		**5 822**	**-10 662**	**43 787**	**-55 788**
Finance income	8	44 463	1 914	54 512	2 392
Finance costs	8	-208 281	-14 386	-366 263	-27 098
Net financial items		**-163 818**	**-12 473**	**-311 751**	**-24 706**
Profit / loss (-) before income tax		**-157 995**	**-23 134**	**-267 964**	**-80 494**
Income taxes	9	106 335	26 972	119 342	68 780
Net profit / loss (-)		**-51 661**	**3 838**	**-148 622**	**-11 714**
Other comprehensive income:					
Total other comprehensive income		**-**	**-**	**-**	**-**
Total comprehensive income / loss (-)		**-51 661**	**3 838**	**-148 622**	**-11 714**

OKEA AS

Balance Sheet

Amounts in NOK `000	Note	31.12.2018 (unaudited)	31.12.2017 (audited)
ASSETS			
Non-current assets			
Deferred tax assets		-	85 091
Goodwill	6	1 449 986	8 057
Exploration and evaluation assets		6 324	5 752
Oil and gas properties	6, 10	4 022 321	676 378
Buildings	6, 10	92 501	-
Furniture, fixtures and office equipment	10	3 407	217
Other financial non-current assets	6	2 754 237	-
Total non-current assets		**8 328 776**	**775 495**
Current assets			
Trade and other receivables	11	864 890	120 207
Spareparts, equipment and inventory	12	315 500	-
Restricted cash	15	48 327	907 799
Cash and cash equivalents		394 670	29 609
Total current assets		**1 623 387**	**1 057 615**
TOTAL ASSETS		**9 952 163**	**1 833 110**
EQUITY AND LIABILITIES			
Equity			
Share capital	13	8 220	24 738
Share premium		1 624 104	470 755
Other paid in capital		1 361	-
Accumulated loss		-170 289	-21 667
Total equity		**1 463 396**	**473 827**
Non-current liabilities			
Provisions	14	3 859 308	319 668
Deferred tax liabilities	9	886 782	-
Interest-bearing loans and borrowings	15	2 528 589	963 312
Total non-current liabilities		**7 274 680**	**1 282 979**
Current liabilities			
Trade and other payables	16	1 044 141	66 013
Income tax payable	6, 9	155 555	-
Shareholder loan		1 141	1 141
Public dues payable		9 840	3 596
Provisions, current		3 410	5 554
Total current liabilities		**1 214 087**	**76 304**
Total liabilities		**8 488 767**	**1 359 283**
TOTAL EQUITY AND LIABILITIES		**9 952 163**	**1 833 110**

Statement of Changes in Equity

Amounts in NOK `000	Share capital	Share premium	Other paid in capital	Unregistered share capital	Accumulated loss	Total equity
Equity at 1 January 2017	11 337	216 125	-	146 968	-9 953	364 477
Net profit / loss (-) for the year					-11 714	-11 714
Registration of share issues in Company Registry	7 348	139 620		-146 968		-
Share issues, cash	3 275	62 225				65 500
Share issues, conversion of debt	2 778	52 786				55 564
Equity at 31 December 2017	**24 738**	**470 755**	**-**	**-**	**-21 667**	**473 827**
Equity at 1 January 2018	24 738	470 755	-	-	-21 667	473 827
Net profit / loss (-) for the year					-148 622	-148 622
Effect of equity restructuring	-21 613	21 613				0
Share issues	5 095	1 131 736				1 136 831
Share based payment			1 361			1 361
Equity at 31 December 2018	**8 220**	**1 624 104**	**1 361**	**-**	**-170 289**	**1 463 396**

Statement of Cash Flows

Amounts in NOK `000	Q4 2018 (unaudited)	Q4 2017 (unaudited)	2018 (unaudited)	2017 (audited)
Cash flow from operating activities				
Profit / loss (-) before income tax	-157 995	-23 134	-267 964	-80 494
Income tax paid/received	20 885	3 740	20 885	3 740
Depreciation, depletion and amortization	82 130	4 967	100 066	18 025
Accretion ARO	5 577	1 500	10 078	6 001
Interest expense	56 970	9 238	145 082	9 238
Change in trade and other receivables, and inventory	-506 710	-13 535	-634 462	-6 420
Change in trade and other payables	545 854	29 216	693 180	8 248
Change in other non-current items	173 006	4 951	168 563	4 385
Net cash flow from / used in (-) operating activities	**219 717**	**16 943**	**235 428**	**-37 278**
Cash flow from investing activities				
Investement in exploration and evaluation assets	44	-999	-573	-999
Business combination, cash paid	-2 725 220	-	-2 725 220	-
Investment in oil and gas properties	-182 646	5 334	-386 526	-123 099
Investment in buildings	-1 001	-	-1 001	-
Investment in furniture, fixtures and office machines	-3 196	-	-3 196	-
Investment in (-)/release of restricted cash	2 114 161	-907 799	859 472	-907 799
Net cash flow from / used in (-) investing activities	**-797 857**	**-903 465**	**-2 257 043**	**-1 031 897**
Cash flow from financing activities				
Proceeds from intercompany borrowings	-	9 000	-	92 280
Repayment of intercompany borrowings	-	-58 300	-	-58 300
Net proceeds from borrowings, bond loan	-	961 415	1 399 065	961 415
Net proceeds from borrowings, exploration loan	-	-	37 650	-
Repayment of borrowings, exploration loan	-40 000	-	-40 000	-
Interest paid	-73 676	-	-143 403	-
Net proceeds from share issues	1 029 578	0	1 133 365	65 500
Net cash flow from / used in (-) financing activities	**915 902**	**912 115**	**2 386 677**	**1 060 895**
Net increase/ decrease (-) in cash and cash equivalents	**337 762**	**25 593**	**365 062**	**-8 280**
Cash and cash equivalents at the beginning of the period	56 909	4 015	29 609	37 889
Cash and cash equivalents at the end of the period	**394 670**	**29 609**	**394 670**	**29 609**
Restricted cash at the end of the period	48 327	907 799	48 327	907 799
Restricted and unrestricted cash at the end of the period	**442 997**	**937 408**	**442 997**	**937 408**

Notes to the interim financial statements fourth quarter 2018

Note 1 - General and corporate information

These financial statements are the unaudited interim condensed financial statements of OKEA AS for the fourth quarter of 2018. OKEA AS is a private limited liability company incorporated and domiciled in Norway, with its main office located in Trondheim.

Note 2 - Basis of preparation

The interim accounts have been prepared in accordance with IAS 34 Interim Financial Reporting. The interim accounts do not include all the information required in the annual accounts and should therefore be read in conjunction with the annual accounts for 2017. The annual accounts for 2017 were prepared in accordance with the EU`s approved IFRS.

Note 3 - Accounting policies

The accounting policies adopted in the preparation of the interim accounts are consistent with those followed in the preparation of the annual accounts for 2017 with additions listed below.

The Company has adopted IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers effective from 1 January 2018. The implementaion of these standards did not have any effect on the financial statements.

The Company has from 2018 started using derivative financial instruments to manage certain exposures to fluctuations in oil prices and foreign exchange rates. Such derivative financial instruments are initially recognised at fair value on the date of which a derivative contract is entered into and are subsequently re-measured at fair value through profit and loss. See notes 8 and 16 for financial impact.

Inventories of petroleum products are stated at the lower of cost and net realisable value. Cost is determined by the first-in first-out method and comprises direct purchase costs, cost of production, transportation and manufacturing expenses. Inventories of spare parts are valued at the lower of cost price (based on weighted average cost) and net realisable value.

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change. The company will apply IFRS 16 starting 1 January 2019 and the estimated effects will be disclosed in the 2018 financial statement.

Note 4 - Critical accounting estimates and judgements

The preparation of the interim accounts entails the use of judgements, estimates and assumptions that affect the application of accounting policies and the amounts recognised as assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are considered to be reasonable under the circumstances. The actual results may deviate from these estimates. The material assessments underlying the application of the company's accounting policies and the main sources of uncertainty are the same for the interim accounts as for the annual accounts for 2017.

Note 5 - Business segments

The Company’s only business segment is development and production of oil and gas on the Norwegian Continental Shelf.

Note 6 - Business combinations

Acquisitions in 2018

Acquisition of a 44,56% interest in Draugen and a 12% interest in Gjøa
On 30 November 2018 the Company completed the acquisition of a 44,56% interest in Draugen (PL093), a 12% interest in Gjøa (PL153) and the office building "Råket" in Kristiansund from A/S Norske Shell. OKEA also assumed the operatorship of the Draugen field effective from 30 November 2018. As part of the transaction, 153 employees were transferred from A/S Norske Shell to OKEA. OKEA has specialized in small and mid-sized developments on the Norwegian Continental Shelf. The Shell Acquisition transformed OKEA to become an operator for a producing field and puts the Company in a strong position to execute on its organic growth strategy and pursue further M&A opportunities.

The acquisition was financed through the issuance of a USD 180 million secured bond loan in June 2018, in addition to net proceeds of approximately NOK 1,033 million from the issuance of new share capital through two private placements completed in October and November 2018.

The transaction is considered to be a business combination and has been accounted for using the acquisition method of accounting as required by IFRS 3. The economic date of the transaction, which will be used for tax purposes, is 1 January 2018. The acquisition date for accounting purposes (transfer of control) has been determined to be 30 November 2018.

A preliminary purchase price allocation (PPA) has been performed and all identified assets and liabilities have been measured at their acquisition date fair values in accordance with the requirements of IFRS 3. The agreed purchase price is NOK 4 520 million. Adjusted for interim period adjustments and working capital, the total consideration is estimated to NOK 2 828 million.

The fair values of the identifiable assets and liabilities in the transaction as at the date of the acquisition have been estimated as follows:

Amounts in NOK `000	
Assets	
Tangible fixed assets	3 141 883
Receivables on seller*	2 745 999
Net working capital	260 710
Total assets	6 148 592
Liabilities	
Deferred tax liability	456 145
Asset retirement obligation	3 512 231
Tax payable	793 924
Total liabilities	4 762 300
Total identifiable net assets at fair value	1 386 292
Total consideration	2 828 221
Goodwill	1 441 929
Goodwill consist of:	
"Ordinary" goodwill	144 190
"Technical" goodwill	1 297 739
Total goodwill	1 441 929

* The parties have agreed that the seller should cover 80% of the costs of decommissioning the acquired oilfields limited to an agreed cap.

The ordinary goodwill consists largely of the synergies of acquiring the Draugen organization, which could provide a platform for generating future growth on the Norwegian Continental Shelf. The technical goodwill arises as a consequence of the requirement to recognise deferred tax for the differences between the assigned fair values and the tax basis of assets acquired and liabilities assumed. None of the goodwill recognised will be deductible for income tax purposes.

At this stage, the purchase price allocation is preliminary and is based on the preliminary completion statement. The final fair values may differ. The review of the fair values of the assets and liabilities acquired will be completed within 12 months of the acquisition at the latest.

From the date of acquisition (30 November 2018), the acquired licenses contributed with NOK 124 million of operating income and NOK 81 million to the profit before tax. A preliminary estimation of the impact from the transaction indicates that if the acquisition had taken place at the beginning of the year, total revenues for the year would have been approximately NOK 3.3 billion higher and profit before tax would have been approximately NOK 1.8 billion higher.

Note 7 - Other income

Amounts in NOK `000	**2018**	**2017**
Yme compensation *)	115 000	-
Change in over-/underlift petroleum products	44 421	5 007
Sale of licenses	7 114	-
Total other income	**166 535**	**5 007**

*) In 2018 SBM Offshore reached an agreement for final settlement of insurance claim related to the Yme project. As partner in Yme, OKEA is receiving a compensation for breach of contract from SBM Offshore. See also note 17.

Note 8 - Financial items

Amounts in NOK `000	**2018**	**2017**
Interest income	9 062	500
Put options, oil	37 212	-
Exchange rate gain	-	1 892
Unwinding of discount asset retirement receivable	8 238	-
Total finance income	**54 512**	**2 392**
Interest expense intercompany	-	-2 491
Interest expense bond loan	-157 088	-10 096
Other interest expense	-3 844	-133
Put options, foreign exchange	-28 164	-
Exchange rate loss	-156 246	-8 236
Unwinding of discount asset retirement obligations	-18 316	-6 001
Other financial expense	-2 605	-141
Total finance costs	**-366 263**	**-27 098**

Note 9 Taxes

Income taxes recognised in the income statement

Amounts in NOK `000	**2018**	**2017**
Change in deferred taxes	-519 194	48 061
Taxes payable	638 370	-
Tax refund current year	-	20 719
Tax refund adjustment previous year	166	-
Total income taxes recognised in the income statement	**119 342**	**68 780**

Reconciliation of income taxes

Amounts in NOK `000	2018	2017
Profit / loss (-) before income taxes	**-267 964**	**-80 494**
Expected income tax at nominal tax rate, 23% (2017: 24%)	61 632	19 319
Expected petroleum tax, 55% (2017: 54%)	147 380	43 467
Permanent differences	-965	-208
Effect of uplift	24 699	10 181
Financial items	-115 606	-8 766
Effect of new tax rates	1 138	337
Adjustments previous year and other	1 064	4 450
Total income taxes recognised in the income statement	**119 342**	**68 780**
Effective income tax rate	**45 %**	**85 %**

Specification of tax effects on temporary differences, tax losses and uplift carried forward

Amounts in NOK `000	31.12.2018	31.12.2017
Tangible and intangible non-current assets	-1 777 715	-335 377
Provisions (net ARO) and gain/loss account	1 020 694	245 873
Interest-bearing loans and borrowings	-39 409	-5 069
Current items	-141 453	-2 526
Tax losses carried forward, offshore 23%	-	-
Tax losses carried forward, offshore 23%	-	51 824
Tax losses carried forward, offshore 55%	-	100 520
Uplift carried forward, offshore 55%	51 100	29 847
Valuation allowance (uncapitalised deferred tax asset)	-	-
Total deferred tax assets / liabilities (-) recognised	**-886 782**	**85 091**

Specification of income tax payable

Amounts in NOK `000	31.12.2018	31.12.2017
Tax payable from Business combination (see note 6)	-793 924	-
Tax payable recognised in income statement	638 370	-
Tax refund current year	-	20 719
Total income tax payable (-)/tax refund	**-155 555**	**20 719**

Deferred tax is calculated based on tax rates applicable on the balance sheet date. Ordinary income tax is 23% (from 2019: 22%), to which is added a special tax for oil and gas companies at the rate of 55% (from 2019: 56%), giving a total tax rate of 78%.

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.

There is no time limit on the right to carry tax losses forward in Norway.

Note 10 Tangible assets

Amounts in NOK `000	Oil and gas properties in production	Oil and gas properties under development	Buildings	Furniture, fixtures and office machines	Total
Cost at 1 January 2018	141 524	553 044	-	233	694 800
Additions	24 986	361 540	1 001	3 196	390 722
Removal and decommissioning asset	596	8 498			9 094
Additions through business combination	3 050 383		91 500		3 141 883
Cost at 31 December 2018	**3 217 488**	**923 081**	**92 501**	**3 428**	**4 236 499**
Accumulated depreciation and impairment at 1 January 2018	-18 189	-	-	-15	-18 205
Depreciation year to date *)	-100 059	-	-	-7	-100 066
Accumulated depreciation and impairment at 31 December 2018	**-118 249**	**-**	**-**	**-22**	**-118 270**
Carrying amount at 31 December 2018	**3 099 240**	**923 081**	**92 501**	**3 407**	**4 118 228**

*) Depreciation of NOK 42.8 million has been included in production cost inventory of oil at year end.

Note 11 Trade and other receivables

Amounts in NOK `000	31.12.2018	31.12.2017
Accounts receivable and receivables from operated licenses	125 072	1 875
Accrued Yme compensation	115 000	-
Accrued revenue	89 960	2 227
Prepayments	10 127	2 892
Working capital and overcall, joint operations	156 306	21 255
Escrow receivable, Yme removal	901	64 681
Underlift of petroleum products *)	351 257	5 501
VAT receivable	16 266	557
Tax refund	-	20 719
Other receivables	-	500
Total trade and other receivables	**864 890**	**120 207**

*) Underlift is mainly related to crude oil from Draugen lifted in January 2019.

Note 12 Spareparts, equipment and inventory

Amounts in NOK `000	31.12.2018	31.12.2017
Inventory of petroleum products	188 748	
Spare parts	126 752	-
Total spareparts, equipment and inventory	**315 500**	**-**

Note 13 Share capital

Number of shares	Ordinary shares	Preference shares	Total shares
Outstanding shares at 1.1.2018	1 438 400	23 299 700	24 738 100
Capital decrease, redemption of preference shares		-23 299 700	-23 299 700
New shares issued during 2018	6 782 050	-	6 782 050
Number of outstanding shares at 31 December 2018	**8 220 450**	**-**	**8 220 450**
Nominal value NOK per share at 31 December 2018			1
Share capital NOK at 31 December 2018			8 220 450

Note 14 Provisions

Amounts in NOK `000	Total non-current
Provision at 1 January 2018	319 668
Additions and adjustments	-
Additions through business combination	3 512 231
Changes in Operator's estimate	9 094
Unwinding of discount	18 316
Total provisions at 31 December 2018	**3 859 308**

Asset retirement obligations

Provisions for asset retirement obligations represent the future expected costs for close-down and removal of oil equipment and production facilities. The provision is based on the Operator's best estimate. The net present value of the estimated obligation is calculated using a discount rate of 3%. The assumptions are based on the economic environment around the balance sheet date. Actual asset retirement costs will ultimately depend upon future market prices for the necessary works which will reflect market conditions at the relevant time. Furthermore, the timing of the close-down is likely to depend on when the field ceases to produce at economically viable rates. This in turn will depend upon future oil and gas prices, which are inherently uncertain.

Note 15 Intererest-bearing loans and borrowings

Amounts in NOK `000	
Interest bearing loans and borrowings at 1 January 2018	963 312
Net proceeds from borrowings, bond loan *	1 399 065
Amortization of transaction costs, bond loans	12 481
Foreign exchange movement, bond loans	153 732
Interest bearing loans and borrowings at 31 December 2018	**2 528 589**

* In June 2018 the Company entered into a USD 180 million secured bond loan. Maturity date for the entire loan is in June 2023. The interest rate is 3 month LIBOR plus 6.5% p.a. The net proceeds from the bond issue was used to finance the acquisition of interests in the Draugen and Gjøa fields from A/S Norske Shell (see note 6 for further information). The net proceeds from the bond issue was converted into NOK and placed on an escrow account until released when the equity financing of the acquisition was completed.

In connection with the settlement for the Shell transaction, the funds from Okea 01 and Okea 02 were released to the Company, without the condition for such release linked to new equity being registered having been fulfilled, against a condition to have an amount standing to an escrow account of USD 5.3 million. The waiver given by the Nordic Trustee originally set a deadline of 23 February 2019, now extended to 30 June 2019, to fulfill the requirements for the registration of new equity being paid in to the Company.

OKEA has placed an additional USD 10.9 million in escrow, which for purposes of calculation of one of the financial covenants in the Company's bond loans will reduce total debt. The total amount in escrow is USD 16.2 million. In its compliance certificate related to 31 December 2018 the Company will report that it is in compliance with all its covenants in its bond loans.

Note 16 Trade and other payables

Amounts in NOK `000	**31.12.2018**	**31.12.2017**
Trade creditors	76 871	7 765
Accrued holiday pay and other employee benefits	18 965	3 743
Working capital, joint operations	446 961	34 837
Accrued interest bond loan	10 917	9 238
Accrued consideration from acquisitions of interests in licenses	103 000	8 940
Prepayments from customers	96 353	-
Fair value put options, foreign exchange *)	15 564	-
Other accrued expenses	275 509	1 490
Total trade and other payables	**1 044 141**	**66 013**

*) Fair value of put options, foreign exchange is based on quoted market prices at the balance sheet date (level 2 in the fair value hierarchy). See also note 8.

Note 17 - Events after the balance sheet date

Subsequent to year end, the Company has been notified that the Yme compensation amount will be higher than the accrued amount at year end. See note 7. The difference, approximately NOK 20 million, will be recognised in other operating income in Q1-2019.

The Gjøa license operator, Neptune Energy Norge, submitted in February 2019 development plans for the P1 project. This is a re-development of the P1 segment of the Gjøa field. First production is expected in late 2020/early 2021. Total recoverable resources are estimated to be 32,6 million barrels of oil equivalents (boe). P1 is expected to yield around 24,000 boe/d at maximum production.

OKEA was awarded four new licenses in the 2018 Awards in Predefined Areas (APA), whereof three as operator.