2019Q2

Quarterly and half year Report

okea.no

Second quarter 2019 summary

Highlights

- Listed at Oslo Stock Exchange on 18 June under the ticker “OKEA”
- Raised gross proceeds of NOK 315 million in the initial public offering
- Sanctioned two appraisal wells on Draugen scheduled to be drilled in Q4 2019
- Operating income of NOK 1 039 (28) million
- Profit from operating activities of NOK 367 (-19) million
- Net profit / loss before tax (-) was NOK 311 (-66) million

(Amounts in brackets refer to corresponding period previous year)

Financial and operational summary

	Unit	Q2 2019	Q1 2019*	Q2 2018	Full year 2018*
Revenue from crude oil and gas sales	NOKm	1 042	748	28	150
EBITDA [1]	NOKm	594	413	-13	149
Net profit / loss (-)	NOKm	18	-9	-32	-156
Cash flow from operations	NOKm	616	494	-3	235
Cash flow from investments	NOKm	-81	-266	-1 444	-2,257
Draugen	Boepd [2]	9,241	8,637	N/A	10,898
Gjøa	Boepd [2]	10,496	10,488	N/A	11,108
Ivar Aasen	Boepd [2]	308	373	358	363
Total net production	**Boepd [2]**	**20,045**	**19,498**	**358**	**22,369**
Production expense per boe [3]	NOK/boe	102.4	82.1	68.6	118.7
Realized Liquids price	USD/boe	60.7	56.2	55.3	67.8
Realized Gas price	USD/scm	0.15	0.24	0.24	0.29

1) EBITDA is defined as earnings before interest and other financial items, taxes, depreciation, depletion, amortization and impairments

2) Boepd is defined as barrels of oil equivalents per day (Full year 2018 for Draugen and Gjøa includes December figures only)

3) Production expense per boe is production expense based on produced volumes divided by number of barrels of oil equivalents produced in the corresponding period

* Restated

Financial review

Statement of Comprehensive Income

(Amounts in brackets refer to corresponding period previous year)

Total operating income in the second quarter was NOK 1 039 (28) million. Revenue from oil and gas sales was NOK 1 042 million compared to NOK 748 million in Q1 2019. The increase is mainly caused by two liftings on Draugen in Q2 compared to one lifting in Q1 2019, partly offset by impaired market prices for natural gas and reduced volumes of oil and gas lifted from Gjøa.

Other operating income / loss (-) amounted to NOK -3 (0) million related to costs and value adjustments of oil options.

Production expenses amounted to NOK 186 (2) million, equating to 102.4 (68.6) NOK/boe. In Q1 2019 production expense NOK/boe was 82.1. The main drivers for the increase in Q2 2019 are increased activity on planning for future value creating projects at Draugen, and revised transport and processing costs for Gjøa.

Exploration expenses amounted to NOK 34 (16) million in the quarter, reflecting purchase of seismic data and activities in the exploration phase on PL038D Grevling and on exploration licences.

Impairments amounted to NOK 43 million and is related to technical goodwill as described in note 9.

Depreciation in the second quarter was NOK 184 (6) million. The increase compared to the second quarter last year is related to the acquisition of the Draugen and Gjøa assets.

Net Employee benefit expenses were NOK 13 (-1) million and net Other operating expenses amounted to NOK 22 (16) million and both represent OKEA's share of costs after allocations to licence activities.

Net financial items amounted to NOK -56 (-47) million and the increase was mainly related to interest expense on bond loans, offset by exchange rate gains.

Net profit for the period was NOK 18 (-32) million after taxes of NOK 293 (-34) million. Earnings per share were NOK 0,21 (-0,86) for basic and NOK 0,19 (-0,86) for diluted.

Statement of financial position

(Amounts in brackets refer to 31 December 2018 – restated as described in note 3)

Goodwill amounted to NOK 1 430 (1 526) million and the reduction was caused by impairment of technical goodwill as described in note 3 and 9. The values of Goodwill, Oil and gas properties and deferred tax per 31 December 2018 are restated due to adjustments in the preliminary Purchase Price Allocation (PPA) for the Shell transaction as described in note 3. The main change for the restated amounts is reduced volumes on the Gjøa P1 project compared to what was used in the PPA previously. The updated volumes are equal to the Reserves Certification Report of 01.03.2019 that was used in the Prospectus published in the Initial Public Offering (IPO).

Right-of-use assets were recognised for the first time in 2019 caused by implementation of IFRS 16. At the end of second quarter this amounts to NOK 181 million.

Cash and cash equivalents were NOK 1 329 (395) million and restricted cash was NOK 3 (48) million at the quarter end. The increase in cash and cash equivalents is mainly due to a combination of positive cash flow from operations and net proceeds from the share issue in connection with the IPO.

Spare parts, equipment and inventory amounted to NOK 158 (316) million. The reduction was mainly caused by realization of oil inventory at Draugen in 2019 that was acquired and measured at fair market value as part of the Shell transaction in 2018, combined with reduced volumes at the end of the second quarter 2019.

Equity amounted to NOK 1 755 (1 456) million at the end of second quarter. The increase was caused by the net proceeds after tax from the share issue of NOK 290 million and net profit for first half 2019 of NOK 8 million.

Provisions for asset retirement obligations amounted to NOK 3 917 (3 859) million.

Interest-bearing loans and borrowings were NOK 2 487 (2 529) million and decreased due to movement in the USD/NOK exchange rate. OKEA had a waiver related to equity requirements under the OKEA01 and OKEA02 bond agreements that expired on 30 June 2019. With the share issue in connection with the IPO in June 2019, the bond equity requirements are fulfilled, and the amounts previously placed in escrow were released.

Lease liability effect from application of the new accounting standard on Leasing, IFRS 16 is split into non-current and current liability NOK 136 (0) million and NOK 46 (0) million.

Trade and other payables amounted to NOK 944 (1 146) million decreased mainly because of reduction in accrued consideration from acquisitions of interests in licences and other accrued expenses.

Statement of Cash flows

(All amounts in brackets refer to corresponding period previous year)

Net cash flows from operating activities was NOK 616 (-3) million. The increase was mainly caused by cash generated from the assets Draugen and Gjøa which OKEA acquired effective from 30 November 2018.

Net cash flows from investment activities was NOK -81 (-1 444) million, of which investments in Oil & Gas Properties amounted to NOK -215 (-84) million for the quarter, mainly related to the Yme New Development and modification projects on Draugen. Release of restricted cash added positively to cash flow from investments in the quarter with NOK 139 (-1 360) million. Q2 2018 amount relates to bond loan placed in escrow.

Net cash flow from financing activities totalled NOK 208 (1 399) million, of which net proceeds from the share issue amounted to NOK 283 million and interest paid in Q2 2019 to NOK -75 million. In the second quarter 2018, proceeds from bond loan contributed positively to cash from financing activities.

OKEA produced 1.8 (0.33) mmboe in the second quarter of 2019, corresponding to 20 045 (358) boepd. The average realised liquid price was USD 60.7 (55.3) per barrel, while gas revenues were recognized at market value of USD 0.15 (0.24) per standard cubic metre (scm). The price fluctuation between quarters for gas is driven by impaired market conditions for gas in Europe over the last quarter.

Draugen (Operator, 44.56%)

Q2 production from Draugen was 9,241 boepd net to OKEA compared to 8,637 boepd net in Q1. This represents an increase of approximately 7 percent. The main driver for increased production this quarter is due to the shut-in production in Q1 from the piping replacement project, partly offset by reduced production caused by the Q2 activities described below.

The planned shutdown for Safety and Automation Systems (SAS) upgrade was successfully completed in June. An efficient and safe replacement campaign for the Christmas trees for wells A2 and A3 was completed in a shorter period than planned, due to implementation of continuous improvement measures and lessons learned from the previous replacement project.

Planning activities are ongoing for drilling of one infill pilot well in the Draugen field and one exploration well in the “Skumnisse” prospect north-east of Draugen, with Deepsea Nordkapp. Both wells are within the Draugen licence (PL093) and will be drilled in Q4 2019.

Gjøa (Partner, 12.00%)

Net production to OKEA in Q2 was 10 496 boepd, compared to 10 488 boepd in Q1. Gjøa production regularity including gas export was 93% which is in line with current premises.

A light well intervention was successfully executed in May with the main objective to replace a gas lift valve in well B-1 to increase well lifetime and reserves.

The Gjøa P1 Project was approved by Norwegian Authorities 26 June. Production start is expected late 2020. The operator is planning for a ten-day shutdown in August due to modifications related to tie-in of the Nova Project, in addition to a one-day shutdown due to gas compressor water wash the same month.

Ivar Aasen (Partner, 0.554%)

Production Efficiency (PE) on Ivar Aasen is dependent of Edvard Grieg (EG) as power, processing and export is provided by EG. During the first two months of Q2 the PE dropped from 97.9% in Q1 to 92.6% end of May due to turbine challenges on EG. Total net OKEA production for Q2 was 308 boepd compared to 373 boepd in Q1. Reduction in May was somewhat compensated in late June by the start-up of D-18, the new well in the Alluvial fan formation.

The fishbone well in D-18 has shown positive production numbers after start-up and more wells in the Alluvial fan formation is being looked at. On 1 July a Multilateral well, D-15, in the Skagerak formation was spudded.

Development projects

Yme (Partner, 15.00%)

The Yme New Development project is well underway with upgrade of the Jack-up Rig Maersk Inspirer and construction of a new Wellhead Module at Aker Solutions yard in Egersund. For the Jack up unit both lifetime extension scope and field specific scope is being executed, and a milestone was achieved when the hang off module was completed and installed in June 2019.

An important milestone for the project was achieved in July 2019 when the Caisson Permanent Support (CPS) was successfully installed offshore at the field location. The purpose of the CPS is to secure enough structural support for the wellhead caisson connected to the existing subsea storage tank.

The Wellhead Module is planned to be transported to the Yme Field in Q3 2019, and the Jack-up unit is planned to be departing the yard for transport to the Yme Field in Q4 2019.

The Yme New Development project is on track towards first oil in H1 2020 with maximum plateau oil production estimated to be 38 000 boe per day, whereof OKEA net share is 5 700 boepd.

Exploration licences

The licensees of PL958 (OKEA operator, 50%), east of Draugen, have decided to retain the production licence by committing to the acquisition of 3D seismic data, fulfilling the work program requirements. The survey will be acquired by PGS ASA in Q3 2019 and fast-track processing results are expected to be ready for interpretation by the end of the year.

PL973 licensees (OKEA operator, 30%) have agreed to perform two site surveys in July 2019 to enable drilling of exploration wells in 2020. Work continues in PL1003 to evaluate Mistral, which OKEA believes is a previously misinterpreted and overlooked gas discovery.

Grevling / Storskrymten (Operator, 35.00% / 60.00%)

The Grevling and Storskrymten discoveries are being further matured as one project towards a planned Decision to Continue in Q1 2020. The licence partnership has accordingly agreed a revised work program and budget for 2019 in order to mature the concept of a Jack-Up Mobile Offshore Production Unit (MOPU) towards the same decision gate.

Health, safety and the environment (HSE)

OKEA has not experienced or recorded any serious incidents during the second quarter of 2019. This result is in accordance with the highly prioritized objective of securing an accident free environment in all OKEA's operations and activities.

OKEA has worked to further review and develop the Company's management system, post transition of the Draugen operatorship, to continuously improve the Company's governing documentation and working processes and align our operations in accordance with industry practice and standards common on the Norwegian Continental Shelf.

OKEA has during the second quarter of 2019 finalized a new revision of the environmental risk analysis for Draugen and furthermore updated the oil spill contingency plan for the operations, to ensure the best emergency solutions and resources are available if the unlikely event of an acute oil spill should occur. OKEA has applied to EU Emission Trading System related to the EU emission quota trading system phase 4 which applies to the period 2021-2030. Expected benefit from possible grants will be reduced environmental expenses for OKEA.

Report for the first half 2019

	Unit	YTD 2019	YTD 2018
Revenue from crude oil and gas sales	NOKm	1 804	30
EBITDA	NOKm	1 007	-26
Net profit / loss (-)	NOKm	8	-33
Cash flow from operations	NOKm	1 110	-17
Cash flow from investments	NOKm	-347	-1 442

(Amounts in brackets refer to corresponding period previous year)

OKEA reported a total of NOK 1 804 (30) million in revenues for the first half of 2019. The increase caused by revenues from the Draugen and Gjøa fields. Production in the period was 3.6 mmboe.

Production expenses were NOK 330 (5) million in the period, which represent NOK 92.2 (70.3) per barrel of oil equivalent.

EBITDA amounted to NOK 1 007 (-26) million and net profit for the period was NOK 8 (-33) million.

Cash flow from operations was NOK 1 110 (-17) million. The increase was mainly caused by the acquired assets Draugen and Gjøa which OKEA had for the first half year. Cash flow from investments amounted to NOK -347 (-1 442) for the period, mainly related to the Yme New Development and the modification project on Draugen.

OKEA was in January 2019 awarded four licences on the Norwegian Continental Shelf in the 2018 APA (Award in Pre-Defined Areas), whereof three as operator.

On 18 June the company was listed on the Oslo Stock Exchange after a successful completion of the company's initial public offering. In connection with the offering OKEA raised gross proceeds of NOK 315 million after issuing 15 million new shares.

Securing an accident free environment has the highest priority in all OKEA's operations and activities. The company had no serious incidents during the first half of 2019 and has maintained good HSE records.

Risks and uncertainties

Investment in OKEA involves risks and uncertainties as described in the company's annual report for 2018. The company's revenues, cash flow, reserve and resource estimates, profitability and rate of growth depend substantially on international and local prices of oil and gas. Prices for oil and gas may fluctuate largely based on factors beyond the company's control.

The company is also exposed to other financial risks as, but not limited to, fluctuations in exchange rates, increased interest rates and capital requirements. See also note 23 in OKEA's annual report for 2018.

Outlook

Planning for OKEA's first operated drilling operations on the Draugen field continues, still with expected commencement in Q4 2019. The drilling program is a step in realizing the ambition of enhanced oil recovery from the Draugen field and prolonged production from the Draugen platform. The exploration program on PL958 is accelerated with seismic acquisition that will commence in July 2019. This is expected to further mature the resource potential in the area.

The P1 development plan on Gjøa has been approved by Norwegian Authorities and production start is expected late 2020.

The Yme new development project is on track for first oil in Q2 2020 and will at plateau add a production of 5 700 boepd net to OKEA. The Kathryn exploration well north-east of Yme in PL910 is expected to be drilled in August 2019.

After the listing on the Oslo Stock Exchange with new equity raised, the Company is better positioned to finance selective growth opportunities to enhance production and increase value creation.

Financial Statements with notes Q2 and half year 2019

Statement of Comprehensive Income

Amounts in NOK `000	Note	Q2 2019 (unaudited)	Q2 2018 (unaudited)	01.01-30.06. 2019 (unaudited)	01.01-30.06. 2018 (unaudited)	Restated Year 2018
Revenues from crude oil and gas sales	6	1 042 370	27 825	1 790 486	30 139	149 761
YME compensation contract breach	6	-	-	22 098	-	115 000
Other operating income / loss (-)	6	-2 892	-	-8 877	-	44 326
Total operating income		**1 039 479**	**27 825**	**1 803 707**	**30 139**	**309 087**
Production expenses		-185 938	-2 235	-330 045	-4 625	-96 714
Changes in over/underlift positions and production inventory		-191 284	-8 582	-355 870	5 440	133 318
Exploration expenses		-33 825	-15 524	-46 227	-26 735	-74 782
Depreciation, depletion and amortization	8	-184 170	-5 822	-364 381	-11 704	-100 066
Impairment	9	-43 010	-	-96 658	-	-
Employee benefit expenses		-12 657	1 446	-21 884	-9 587	-34 183
Other operating expenses		-22 052	-16 131	-42 975	-20 448	-87 899
Total operating expenses		**-672 936**	**-46 849**	**-1 258 039**	**-67 661**	**-260 326**
Profit / loss (-) from operating activities		**366 543**	**-19 025**	**545 668**	**-37 522**	**48 761**
Finance income	10	25 269	481	50 315	1 214	17 300
Finance costs	10	-94 293	-22 385	-184 131	-46 290	-181 853
Net exchange rate gain/loss (-)	10	13 166	-25 536	41 013	2 832	-184 410
Net financial items		**-55 858**	**-47 441**	**-92 802**	**-42 244**	**-348 963**
Profit / loss (-) before income tax		**310 684**	**-66 465**	**452 866**	**-79 766**	**-300 202**
Taxes (-) / tax income (+)	7	-293 121	34 346	-444 577	47 161	144 488
Net profit / loss (-)		**17 564**	**-32 119**	**8 289**	**-32 605**	**-155 715**
Other comprehensive income:						
Total other comprehensive income		**-**	**-**			**-**
Total comprehensive income / loss (-)		**17 564**	**-32 119**	**8 289**	**-32 605**	**-155 715**
Weighted average no. of shares outstanding basic*		85 009 436	37 151 440	83 614 716	29 981 583	39 144 548
Weighted average no. of shares outstanding diluted*		90 231 907	37 151 440	89 166 398	29 981 583	39 144 548
Earnings per share (NOK per share) - Basic		0,21	-0,86	0,10	-1,09	-3,98
Earnings per share (NOK per share) - Diluted		0,19	-0,86	0,09	-1,09	-3,98

* All periods are updated to reflect the split of shares 1/10 registered in Q2 2019

Statement of Financial Position

Amounts in NOK `000	Note	30.06.2019 (unaudited)	30.06.2018 (unaudited)	Restated 31.12.2018
ASSETS				
Non-current assets				
Deferred tax assets	7	-	111 033	-
Goodwill	9	1 429 711	8 057	1 526 370
Exploration and evaluation assets		11 389	5 752	6 324
Oil and gas properties	8	3 804 929	795 135	3 777 130
Buildings	8	90 188	-	92 501
Furniture, fixtures and office equipment	8	9 128	214	3 407
Right-of-use assets	3, 8	181 333	-	-
Other non-current assets	11	2 803 665	21 644	2 754 237
Total non-current assets		**8 330 344**	**941 835**	**8 159 968**
Current assets				
Trade and other receivables	13	755 983	119 510	912 159
Spareparts, equipment and inventory	16	158 803	-	315 500
Restricted cash	14	2 792	2 219 341	48 327
Cash and cash equivalents	14	1 329 263	73 066	394 670
Total current assets		**2 246 841**	**2 411 918**	**1 670 656**
TOTAL ASSETS		**10 577 185**	**3 353 753**	**9 830 625**
EQUITY AND LIABILITIES				
Equity				
Share capital	12	10 184	3 715	8 220
Share premium		1 912 195	595 991	1 624 104
Other paid in capital		2 152	556	1 361
Accumulated loss		-169 092	-54 272	-177 381
Total equity		**1 755 439**	**545 990**	**1 456 304**
Non-current liabilities				
Provisions	15	3 916 736	322 668	3 859 308
Lease liability	3, 19	135 864	-	-
Deferred tax liabilities	7	695 385	-	670 387
Interest-bearing loans and borrowings	18	2 486 978	2 355 029	2 528 589
Total non-current liabilities		**7 234 962**	**2 677 697**	**7 058 285**
Current liabilities				
Trade and other payables	17	944 213	123 035	1 145 923
Income tax payable	7	569 134	-	155 722
Lease liability - current	3, 19	45 544	-	-
Shareholder loan		1 141	1 141	1 141
Public dues payable		23 205	2 570	9 840
Provisions, current		3 546	3 320	3 410
Total current liabilities		**1 586 784**	**130 066**	**1 316 036**
Total liabilities		**8 821 746**	**2 807 763**	**8 374 321**
TOTAL EQUITY AND LIABILITIES		**10 577 185**	**3 353 753**	**9 830 625**

Statement of Changes in Equity

Amounts in NOK `000	Share capital	Share premium	Other paid in capital	Accumulated loss	Total equity
Equity at 1 January 2018	24 738	470 755		-21 667	473 827
Total comprehensive income/loss (-) for the period				-32 605	-32 605
Capital reduction (equity restructuring)	-23 300	-452 590			-475 890
Share issues, conversion of debt (equity restructuring)	1 687	474 203			475 890
Net proceeds from share issues in cash	590	103 622			104 212
Share based payment			556		556
Equity at 30 June 2018	**3 715**	**595 991**	**556**	**-54 272**	**545 990**
Equity at 1 July 2018	3 715	595 991	556	-54 272	545 990
Total comprehensive income/loss (-) for the period				-123 109	-123 109
Net proceeds from share issues in cash	4 505	1 028 113			1 032 619
Share based payment			805		805
Equity at 31 December 2018	**8 220**	**1 624 104**	**1 361**	**-177 381**	**1 456 304**
Equity at 1 January 2019	8 220	1 624 104	1 361	-177 381	1 456 304
Net profit / loss (-) for the period				8 289	8 289
Net proceeds from share issues in cash	1 963	288 091			290 054
Share based payment			792		792
Equity at 30 June 2019	**10 184**	**1 912 195**	**2 152**	**-169 092**	**1 755 439**

Statement of Cash Flows

Amounts in NOK `000	Q2 2019 (unaudited)	Q2 2018 (unaudited)	01.01-30.06. 2019 (unaudited)	01.01-30.06. 2018 (unaudited)	Restated Year 2018
Cash flow from operating activities					
Profit / loss (-) before income tax	310 684	-66 465	452 866	-79 766	-300 202
Income tax paid/received	1 592	-	1 592	-	20 885
Depreciation, depletion and amortization	184 170	5 822	364 381	11 704	100 066
Impairment goodwill	43 010	-	96 658	-	-
Accretion ARO	4 022	1 500	7 999	3 000	10 078
Interest expense	55 542	-	109 960	-	145 082
Change in trade and other receivables, and inventory	154 289	12 573	312 873	697	-602 224
Change in trade and other payables	-113 989	5 269	-186 147	54 318	693 180
Change in other non-current items	-23 021	37 874	-49 859	-7 347	168 563
Net cash flow from / used in (-) operating activities	**616 299**	**-3 427**	**1 110 323**	**-17 394**	**235 428**
Cash flow from investing activities					
Investment in exploration and evaluation assets	-2 070	-	-5 658	-	-573
Business combination, cash paid	-	-	-	-	-2 725 220
Investment in oil and gas properties	-215 241	-84 091	-380 084	-130 458	-386 526
Investment in buildings	-	-	-	-	-1 001
Investment in furniture, fixtures and office machines	-3 077	-	-7 183	-	-3 196
Investment in (-)/release of restricted cash	139 331	-1 359 709	45 535	-1 311 542	859 472
Net cash flow from / used in (-) investment activities	**-81 057**	**-1 443 800**	**-347 389**	**-1 442 000**	**-2 257 043**
Cash flow from financing activities					
Net proceeds from borrowings, bond loan	-	1 399 065	-	1 399 065	1 399 065
Net proceeds from borrowings, exploration loan	-	-	-	-	37 650
Repayment of borrowings, exploration loan	-	-	-	-	-40 000
Interest paid	-74 816	-	-111 229	-	-143 403
Net proceeds from share issues	282 888	-	282 888	103 787	1 133 365
Net cash flow from / used in (-) financing activities	**208 071**	**1 399 065**	**171 658**	**1 502 852**	**2 386 677**
Net increase/ decrease (-) in cash and cash equivalents	**743 314**	**-48 163**	**934 593**	**43 458**	**365 062**
Cash and cash equivalents at the beginning of the period	585 949	121 230	394 670	29 609	29 609
Cash and cash equivalents at the end of the period	**1 329 263**	**73 066**	**1 329 263**	**73 066**	**394 670**
Restricted cash at the end of the period	2 792	2 219 341	2 792	2 219 341	48 327
Restricted and unrestricted cash at the end of the period	**1 332 055**	**2 292 408**	**1 332 055**	**2 292 408**	**442 997**

Notes to the interim financial statements

Note 1 General and corporate information

These financial statements are the unaudited interim condensed financial statements of OKEA ASA for the second quarter of 2019. OKEA ASA ("OKEA" or "the Company") is a public limited liability company incorporated and domiciled in Norway, with its main office located in Trondheim. OKEA ASA's shares were listed on the Oslo Stock Exchange on 18 June 2019. The company's ticker is OKEA.

The Company's aim is to contribute to the value creation on the Norwegian Continental Shelf with cost effective development and operating systems.

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 2018. The annual accounts for 2018 were prepared in accordance with EU`s approved International Financial Reporting Standards (IFRS).

The interim financial statements were approved for issue by the company's Board of Directors on 16 July 2019.

Note 3 Accounting policies and prior periods adjustments

The accounting policies adopted in the preparation of the interim accounts are consistent with those followed in the preparation of the annual accounts for 2018, except for the IFRS 16 and the changes described below.

IFRS 16
As described in the company's annual financial statements for 2018, IFRS 16 Leases entered into force from 1 January 2019. The implementation resulted 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 recognised. The only exceptions are short-term and low-value leases.

The Company adopted the standard using the modified retrospective approach. The implementation had no impact on net equity and resulted in an increase of NOK 198.4 million in property, plant and equipment with a corresponding increase in liabilities, of which NOK 152.9 million is classified as non-current liabilities and NOK 45.5 million is classified as current liabilities.

The Company has applied a gross presentation related to leasing contracts entered into as licence operator.

Change in accounting principle for valuation and presentation of overlift and underlift
The company has previously used a variant of the sales method where changes in overlift and underlift balances have been valued at its net realizable value and the change in over/underlift has been included as "other income". Due to recent development in IFRIC discussions, the company has decided to change to the traditional sales method from 1 January 2019. This means that changes in over/underlift balances are measured at production cost including depreciation and presented as an adjustment to cost. There was no impact on the restatement due to change in the accounting principle recorded for first half of 2018 in the previously reported numbers.

Adjustments of preliminary Purchase Price Allocation on Gjøa affecting prior periods

During the period, the company identified items that require adjustment to the preliminary Purchase Price Allocation (PPA) for the Shell transaction as of 30 November 2018. The estimates for petroleum reserves related to the new P1 project on Gjøa were reduced by the operator prior to the project being sanctioned in February 2019, without corresponding update of the PPA. In addition, there was an error in the calculation of gas processing tariffs. These adjustments are treated as errors and retroactively adjusted in the PPA. These adjustments resulted in a reduction in the net book value allocated to Gjøa of NOK 245.2 million, with a corresponding increase in goodwill of NOK 53.9 million and a decrease in deferred tax liability of NOK 191.2 million compared with the preliminary PPA presented for this transaction in the 2018 annual financial statements. For Q1 2019, these adjustments resulted in a decrease in depreciation expenses of NOK 21.1 million and an increase in impairment charge for Q1 2019 of NOK 17.3 mill compared to previously reported figures.

The following table shows the effects for the YTD 2018 figures:

Amounts in NOK `000	**Audited 2018**	**Change in accounting principle** [1)]	**Effect of updated PPA**	**Restated 2018**
Accounting line in Statement of Comprehensive Income				
Other operating income	88 747	-44 421		44 326
Production expenses	-18 347	-78 366		-96 714
Changes in over/underlift positions and production inv.		133 318		133 318
Depreciation, depletion and amortization	-57 297	-42 769		-100 066
Income taxes	119 342	25 146		144 488
Accounting line in Statement of Financial Position				
Goodwill	1 472 428		53 942	1 526 370
Oil and gas properties	4 022 321		-245 191	3 777 130
Trade and other receivables	944 397	-32 238		912 159
Deferred tax liabilities	886 782	-25 146	-191 249	670 387
Accumulated loss	-170 289	-7 092		-177 381

[1)] Relates to change in principle for valuation and presentation of over/underlift.

The table below shows the effects for the Q1 2019 figures:

Amounts in NOK `000	**Reported Q1-2019**	**Effect of updated PPA**	**Restated Q1-2019**
Accounting line in Statement of Comprehensive Income			
Depreciation, depletion and amortization	-201 359	21 149	-180 210
Impairment	-36 354	-17 294	-53 648
Income taxes	-134 960	-16 496	-151 456
Accounting line in Statement of Financial Position			
Goodwill	1 436 073	36 648	1 472 721
Oil and gas properties	3 991 123	-224 042	3 767 080
Deferred tax liabilities	886 005	-174 753	711 252
Accumulated loss	-174 015	-12 641	-186 656

Other adjustments affecting prior periods

The line item Net exchange rate gain/loss (-) has been added in the Statement of Comprehensive Income. Prior periods have been reclassified to reflect this change.

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 2018.

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 Income

Breakdown of petroleum revenues

			01.01-30.06		
Amounts in NOK `000	**Q2 2019**	**Q2 2018**	**2019**	**2018**	**Year 2018**
Sale of liquids	930 937	25 695	1 501 098	25 719	58 550
Sale of gas	111 433	2 129	289 388	4 419	91 211
Total petroleum revenues	**1 042 370**	**27 825**	**1 790 486**	**30 139**	**149 761**
Sale of liquids (barrels of oil equivalent)	1 772 730	51 069	3 031 989	52 181	171 939
Sale of gas (barrels of oil equivalent)	527 222	6 580	1 112 101	14 456	232 701

Other operating income

YME compensation contract breach*	-	-	22 098	-	115 000
Gain / loss (-) from put options, oil	-2 892	-	-8 877	-	37 212
Sale of licenses	-	-	-	-	7 114
Total other op. income/loss (-)	**-2 892**	**-**	**13 221**	**-**	**159 326**

* The compensation recognized in 2019 is based on the final amount received in Q1 2019. For further information refer to the 2018 Annual Report.

Note 7 Taxes

Income taxes recognised in the income statement

Amounts in NOK `000	Q2 2019	Q2 2018	01.01-30.06 2019	01.01-30.06 2018	Year 2018
Change in deferred taxes	15 868	21 577	-24 997	25 517	-494 048
Taxes payable	-310 581	-	-421 172	-	638 370
Tax refund current year	-	12 769	-	21 644	-
Tax refund adjustment previous year	1 592	-	1 592	-	166
Total taxes (-) / tax income (+) recognised in the income statement	**-293 121**	**34 346**	**-444 577**	**47 161**	**144 488**

Reconciliation of income taxes

Amounts in NOK `000	Q2 2019	Q2 2018	01.01-30.06 2019	01.01-30.06 2018	Year 2018
Profit / loss (-) before income taxes	**310 684**	**-66 465**	**452 866**	**-79 766**	**-300 202**
Expected income tax at nominal tax rate, 22% (2018: 23%)	-68 351	15 154	-99 630	18 346	69 047
Expected petroleum tax, 56% (2018: 55%)	-173 983	36 689	-253 605	43 871	165 111
Permanent differences, inclusive impairment of goodwill	-31 830	-354	-71 970	-569	-965
Effect of uplift	6 942	4 451	13 257	7 191	24 699
Financial and onshore items	-27 492	-21 594	-34 221	-21 679	-115 606
Effect of new tax rates	-	-		-	1 138
Adjustments previous year and other	1 592	-	1 592	-	1 064
Total income taxes recognised in the income statement	**-293 121**	**34 346**	**-444 577**	**47 161**	**144 488**
Effective income tax rate	**94 %**	**52 %**	**98 %**	**59 %**	**48 %**

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

Amounts in NOK `000	30.06.2019	30.06.2018	31.12.2018
Tangible and intangible non-current assets	-1 835 460	-361 222	-1 586 466
Provisions (net ARO), lease liability and gain/loss account	1 164 430	246 471	1 020 694
Interest-bearing loans and borrowings	-27 750	-9 087	-39 409
Current items	-25 920	-4 430	-116 307
Tax losses carried forward, onshore 22%	679	-	-
Tax losses carried forward, offshore 22%	-	73 502	-
Tax losses carried forward, offshore 56%	-	128 762	-
Uplift, offshore 56%	28 637	37 038	51 100
Valuation allowance (uncapitalised deferred tax asset)	-	-	-
Total deferred tax assets / liabilities (-) recognised	**-695 385**	**111 033**	**-670 387**

Deferred tax is calculated based on tax rates applicable on the balance sheet date. Ordinary income tax is 22%, to which is added a special tax for oil and gas companies at the rate of 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 8 Tangible assets and right-of-use assets

Amounts in NOK `000	Oil and gas properties in production	Oil and gas properties under development	Buildings	Furniture, fixtures and office machines	Right-of-use assets	Total
Cost at 1 January 2019	2 972 297	923 081	92 501	3 428	-	3 991 307
Additions	36 930	127 913		4 105	198 400	367 348
Removal and decommissioning asset	-	-	-	-		-
Cost at 31 March 2019	**3 009 227**	**1 050 994**	**92 501**	**7 534**	**198 400**	**4 358 655**
Accumulated depreciation and impairment at 1 January 2019	-118 249	-	-	-22	-	-118 270
Depreciation first quarter	-174 892	-	-1 156	-1	-4 161	-180 210
Additional depreciation of IFRS 16 Right-of-use assets presented gross related to leasing contracts entered into as licence operator	-	-	-	-	-4 698	-4 698
Accumulated depreciation and impairment at 31 March 2019	**-293 141**	**-**	**-1 156**	**-22**	**-8 859**	**-303 179**
Carrying amount at 31 March 2019	**2 716 086**	**1 050 994**	**91 344**	**7 511**	**189 541**	**4 055 477**
Cost at 1 April 2019	3 009 227	1 050 994	92 501	7 534	198 400	4 358 655
Additions	70 200	145 041	-	3 077	652	218 970
Removal and decommissioning asset	-	-	-	-		-
Cost at 30 June 2019	**3 079 427**	**1 196 035**	**92 501**	**10 611**	**199 051**	**4 577 625**
Accumulated depreciation and impairment at 1 April 2019	-293 141	-	-1 156	-22	-8 859	-303 179
Depreciation second quarter	-177 392	-	-1 156	-1 460	-4 161	-184 170
Additional depreciation of IFRS 16 Right-of-use assets presented gross related to leasing contracts entered into as licence operator	-	-	-	-	-4 698	-4 698
Accumulated depreciation and impairment at 30 June 2019	**-470 533**	**-**	**-2 313**	**-1 483**	**-17 718**	**-492 047**
Carrying amount at 30 June 2019	**2 608 893**	**1 196 035**	**90 188**	**9 128**	**181 333**	**4 085 579**

Note 9 Impairment

Tangible and intangible assets are tested for impairment whenever impairment indicators are identified and at least on an annual basis. Impairment is recognized when the book value of an asset or cash generating unit exceeds the recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. The recoverable amount is estimated based on discounted future after tax cash flows. The expected future cash flows are discounted to net present value by applying a discount rate after tax that reflects the weighted average cost of capital (WACC). Technical goodwill arises as an offsetting account to the deferred tax recognized in business combinations and is allocated to each Cash Generating Unit (CGU). When deferred tax from the initial recognition decreases, more goodwill is as such exposed for impairments.

Below is an overview of the key assumptions applied in the impairment test as of 30 June 2019:

Year	**Oil USD/BOE**	**Gas GBP/therm**	**Currency rates USD/NOK**
2019 H2	65.0	0.37	8.49
2020	61.7	0.48	8.46
2021	58.8	0.48	8.43
2022	57.2	0.46	8.39
2023	61.1	0.49	8.35
From 2024	65.0*	0.51*	8.00

* Prices in real terms

Other assumptions

For oil and gas reserves future cash flows are calculated on the basis of expected production profiles and estimated proven and probable remaining reserves.

Future capex, opex and abandonment cost are calculated based on the expected production profiles and the best estimate of the related cost. For fair value testing the discount rate applied is 10.0% post tax.

The long-term inflation rate is assumed to be 2.5%.

Impairment testing of technical goodwill

For the CGUs Draugen, Ivar Aasen and Yme, no impairment has been recognized. For the Gjøa CGU the impairment has been calculated as follows:

Amounts in NOK `000	**Gjøa**
Recoverable amount	774 415
Net carrying amount 31 March 2019 prior to impairment	828 063
Impairment Q1 2019	**-53 648**
Recoverable amount	731 574
Net carrying amount 30 June 2019 prior to impairment	774 584
Impairment Q2 2019	**-43 010**
Impairment YTD Q2 2019	**-96 658**

The impairment loss has been recognized to reduce the carrying amount of "technical" goodwill related to the Gjøa acquisition in November 2018. In Q2 2019, the reduced deferred tax and lower gas prices are the main reasons for the impairment.

Sensitivity analysis

The table below shows what impairment of goodwill would have been in Q2 2019 changing various assumptions, based on all other asumptions remaining constant. The total figures shown are combined impairment for CGU Gjøa, Draugen, Ivar Aasen and Yme.

		Alternative calculations of impairment in Q2 2019 (NOK '000)	
Assumptions	**Change**	**Increase in assumption**	**Decrease in assumption**
Oil and gas price	+/- 10%	-	145 967
Currency rate USD/NOK	+/- 1.0 NOK	12 192	81 864
Discount rate	+/- 1% point	57 623	27 794
Inflation rate	+/- 1% point	27 548	58 126

Note 10 Financial items

Amounts in NOK `000	Q2 2019	Q2 2018	01.01-30.06 2019	2018	Year 2018
Interest income	555	481	887	1 214	9 062
Unwinding of discount asset retirement receivable	24 714	-	49 428	-	8 238
Finance income	**25 269**	**481**	**50 315**	**1 214**	**17 300**
Interest expense bond loan	-60 315	-20 678	-119 408	-39 929	-157 088
Other interest expense	-740	-	-829	-2	-3 844
Unwinding of discount asset retirement obligations	-28 736	-1 500	-57 427	-3 000	-18 316
Other financial expense	-4 501	-207	-6 466	-3 359	-2 605
Finance costs	**-94 293**	**-22 385**	**-184 131**	**-46 290**	**-181 853**
Put options, foreign exchange	3 361	-	6 875	-	-28 164
Exchange rate gain/loss (-), bond loans	23 670	-36 132	51 060	10 806	-153 732
Net exchange rate gain/loss (-), other	-13 864	10 596	-16 922	-7 974	-2 514
Net exchange rate gain/loss (-)	**13 166**	**-25 536**	**41 013**	**2 832**	**-184 410**
Net financial items	**-55 858**	**-47 441**	**-92 802**	**-42 244**	**-348 963**

Note 11 Other non-current assets

Amounts in NOK `000	
Other non-current assets at 1 January 2018	-
Refund tax payable	21 644
Total other non-current assets at 30 June 2018	**21 644**
Other non-current assets at 1 July 2018	21 644
Refund tax payable	-21 644
Additions through business combination	2 745 999
Unwinding of discount	8 238
Total other non-current assets at 31 December 2018	**2 754 237**
Other non-current assets at 1 January 2019 (Indemnification asset)	2 754 237
Additions and adjustments	-
Unwinding of discount	49 428
Total other non-current assets at 30 June 2019	**2 803 665**

The amount consist of a receivable from seller Shell from the acquisition of Draugen and Gjøa assets in 2018. The parties have agreed that the seller Shell will cover 80% of the actual abandonment expenses for the Draugen and Gjøa fields up to a predefined after-tax cap amount of NOK 638 million (2018 value) subject to Consumer Price Index adjustment. The present value of the expected payments is recognized as a pre-tax receivable on seller.

In addition, the seller has agreed to pay OKEA an amount of NOK 375 million (2018 value) subject to CPI adjustment according to a schedule based on the percentage of completion of the decommissioning of the Draugen and Gjøa fields. The net present value of the receivable is calculated using a discount rate of 3.6% and recognized in the financial statements.

Note 12 Share capital

Number of shares	Ordinary shares	A ordinary shares	Total shares
Outstanding shares at 1.1.2019	7 319 389	901 061	8 220 450
Conversion	901 061	-901 061	-
Share split (1:10)	73 984 050		73 984 050
New shares issued during 2019	19 634 550	-	19 634 550
Number of outstanding shares at 30 June 2019	**101 839 050**	**-**	**101 839 050**

Nominal value NOK per share at 30 June 2019	0,1
Share capital NOK at 30 June 2019	10 183 905

All A ordinary shares were converted to ordinary shares prior to the initial public offering and listing on Oslo Stock Exchange. The total number of new shares issued was 19,634,550 and consisted of 15,000,000 new shares and 4,634,550 warrants converted to shares in connection with the IPO.

As per 30 June 2019 1,250,000 equity-settled warrants are still outstanding. See note 4 to the 2018 Annual Statements for further description.

Note 13 Trade and other receivables

Amounts in NOK `000	30.06.2019	30.06.2018	31.12.2018
Accounts receivable and receivables from operated licences	103 698	16 686	125 072
Accrued Yme compensation	-	-	115 000
Accrued revenue	279 317	1 657	89 960
Prepayments	33 701	42 697	10 127
Working capital and overcall, joint operations/licences	91 009	22 118	156 306
Escrow receivable, Yme removal	-	3 533	901
Underlift of petroleum products	193 785	10 941	398 526
Other short term receivables	40 377	-	-
VAT receivable	14 098	1 160	16 266
Tax refund	-	20 719	-
Total trade and other receivables	**755 983**	**119 510**	**912 159**

Note 14 Restricted cash, Cash and cash equivalents

Restricted cash:

Amounts in NOK `000	30.06.2019	30.06.2018	31.12.2018
Bank deposit, restricted, escrow account	2 792	2 219 341	48 327
Total restricted cash	**2 792**	**2 219 341**	**48 327**

The Nordic Trustee had given a waiver to OKEA that expired on 30 June 2019, related to equity requirements under the OKEA01 and OKEA02 bond agreements. With the share issue in connection with the Initial Public Offering in June 2019, the bond equity requirements are fulfilled as of 30 June 2019, and the amounts previously placed in escrow were released.

The remaining amount in escrow per 30 June 2019 of 2 792 is earned interest.

Cash and cash equivalents:

Amounts in NOK `000	30.06.2019	30.06.2018	31.12.2018
Bank deposits, unrestricted	1 315 440	71 702	388 887
Bank deposit, employee taxes	13 823	1 364	5 784
Total cash and cash equivalents	**1 329 263**	**73 066**	**394 670**

Note 15 Provisions

Amounts in NOK `000	Total non-current
Provision at 1 January 2018	319 668
Unwinding of discount	3 000
Total provisions at 30 June 2018	**322 668**
Provision at 1 July 2018	322 668
Additions through business combination	3 512 231
Changes in Operator's estimate	9 094
Unwinding of discount	15 316
Total provisions at 31 December 2018	**3 859 308**
Provision at 1 January 2019	3 859 308
Additions and adjustments	-
Changes in Operator's estimate	-
Unwinding of discount	57 427
Total provisions at 30 June 2019	**3 916 736**

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.

For recovery of costs of decommissioning related to assets acquired from Shell, see note 11.

Note 16 Spareparts, equipment and inventory

Amounts in NOK `000	30.06.2019	30.06.2018	31.12.2018
Inventory of petroleum products	37 620	-	188 748
Spare parts and equipment	121 183	-	126 752
Total spareparts, equipment and inventory	**158 803**	**-**	**315 500**

Note 17 Trade and other payables

Amounts in NOK `000	30.06.2019	30.06.2018	31.12.2018
Trade creditors	53 812	7 774	76 871
Accrued holiday pay and other employee benefits	57 972	1 676	18 965
Working capital, joint operations/licences	451 455	88 717	446 961
Accrued interest bond loans	9 647	9 156	10 917
Accrued consideration from acquisitions of interests in licenses*	164 782	-	204 782
Prepayments from customers	91 309	4 282	96 353
Fair value put options, foreign exchange	8 689	-	15 564
Other accrued expenses	106 548	11 430	275 509
Total trade and other payables	**944 213**	**123 035**	**1 145 923**

* The amount is related to the acquisition of a 44.56% interest in Draugen and a 12% interest in Gjøa with A/S Norske Shell in 2018. The review of the final completion statement prepared by seller is still ongoing. There is uncertainty associated with this estimate, but the company does not expect the amount to increase.

Note 18 Interest-bearing loans and borrowings

Amounts in NOK `000	
Interest bearing loans and borrowings at 1 January 2019, bond loans (OKEA01 and OKEA02)	2 528 589
Amortization of transaction costs, bond loans (OKEA01 and OKEA02)	9 449
Foreign exchange movement, bond loans (OKEA01 and OKEA02)	-51 060
Interest bearing loans and borrowings at 30 June 2019	**2 486 978**

During 2019 and at 30 June 2019, the company was in compliance with the covenants under the bond agreement. See note 14 regarding amounts previously placed in escrow.

Note 19 Leasing

The Company has entered into operating leases for office facilities. In addition, the Company has entered into operating leases as an operator of the Draugen field for platform supply vessel and associated Remote Operated Vechicle (ROV) upgrade, together with office and warehouse Draugen.

Amounts in NOK `000	
Lease debt 1 January 2019	198 400
Additions lease contracts	652
Accretion lease liability	4 979
Payments of lease debt	-22 623
Total lease debt at 30 June 2019	**181 408**

Break down of lease debt	
Short-term	45 544
Long-term	135 864
Total lease debt	**181 408**

Future minimum lease payments under non-cancellable lease agreements

Amounts in NOK `000	**30.06.2019**
Within 1 year	22 623
1 to 5 years	131 439
After 5 years	107 469
Total	**261 531**

Future lease payments related to leasing contracts entered into as an operator of the Draugen field are presented gross.

Note 20 Derivatives

Amounts in NOK `000	**30.06.2019**	**30.06.2018**	**31.12.2018**
Premium commodity contracts	3 390	-	-
Unrealized loss commodity contracts	-2 692	-	-
Short-term derivatives included in assets	698	-	-
Unrealized loss currency contracts	8 689	-	15 564
Short-term derivatives included in liabilities	8 689	-	15 564

Note 21 Events after the balance sheet date

There are no subsequent events with significant accounting impacts that have occurred between the end of the reporting period and the date of this report that are not already reflected or disclosed in these financial statements.

Statement from the Board of Directors and CEO

We hereby confirm, to the best of our knowledge, that the unaudited interim financial statement for the period 1 January to 30 June 2019 of OKEA ASA have been prepared in accordance with IAS 34 Interim Financial Reporting and that the information presented gives a true and fair view of the company's assets, liabilities, financial position and results for the period viewed in their entirety and that the half year report gives a fair view of the information as described in the Securities Trading Act §5-6 fourth paragraph.

The Board of Directors of OKEA ASA
Trondheim, 16 July 2019

Chaiwat Kovavisarach Chairman of the Board	Henrik Schröder Board Member
Prisana Praharnkhasuk Board Member	Michael William Fischer Board Member
Nicola Gordon Board Member	Finn Haugan Board Member
Rune Olav Pedersen Board Member	Liv Monica Stubholt Board Member
Ida Ianssen Lundh Board Member	Anne Lene Rømuld Board Member
Jan Atle Johansen Board Member	Erik Haugane CEO

OKEA is an oil company contributing to the value creation on the Norwegian Continental Shelf with cost effective development and operation systems.

OKEA ASA

Ferjemannsveien 10
7042 Trondheim

www.okea.no