PANDION ENERGY

Interim Financial Statements
(unaudited)

Second Quarter 2020

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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.

Introduction

PANDION ENERGY

Accounting principles

These interim financial statements have been prepared on the basis 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 2019.

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 2019, The Company has, with effect from 1 January 2019, implemented the amendments to IFRS 9 Prepayment features with negative compensation, IAS 19 Plan amendment, curtailment or settlement, IAS 28 Long-term Interests in Associates and Joint Ventures, IFRIC 23 Uncertainty over income tax treatments and annual improvements to IFRSs 2015-2017. The implementation of these standards has not had a material impact on the entity in the current reporting period.

From 1 January 2019, the Company has applied IFRS 16 Leases using the modified retrospective approach. Therefore, the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4.

For further detailed information on accounting principles, please refer to the Financial Statements for 2019.

Second Quarter 2020 Summary

PANDION ENERGY

Financial review

Total revenue was USD 15.7 (20.9 in Q2 19) million, and reported operating profit USD -5.7 (-3.2 in Q2 19) million.

EBITDAX amounted to USD 3.8 million (10.6 in Q2 2019). Net income came in at USD -2.9 million (0.2 in Q2 2019).

Revenue was related to oil sales from the Valhall and Hod fields, (450 kboe in Q2 2020 compared to 251 kboe in Q2 2019). The financial results in the quarter were impacted by lower commodity prices with an average realised oil price before hedging of USD 33.6 (72.2 in Q2 2019) per bbl.

The operating expenses amounted to USD 11.9 (10.2 in Q2 2019) million. The increase in the operating expenses is mainly explained by overlift in the second quarter resulting in adjustment to cost of USD 3 million.

Investments in fixed assets amounted to USD 17.9 million driven by investments in the Valhall field, mainly drilling at Flank West and Flank South West, and re-development of the Hod field.

The company's interest-bearing debt was USD 166.5 million at the end of the second quarter compared to USD 155.1 million at the end of first quarter 2020.

Financial review cont.

Pandion Energy has a robust and diversified capital structure made up of committed equity of USD 193 million (of which 112 million injected to date), a Reserve Based Lending Facility of USD 150 million (the "RBL facility"), a senior Unsecured Bond Loan of NOK 400 million (the "Unsecured Bond). The current borrowing base in the RBL facility is USD 137.4 million. The Company has also extended the Exploration Finance facility ("EFF") of NOK 400 million by one year. The EFF can be drawn until 31.12.2020 with repayment in Q4 2021.

Provisional tax changes to stimulate investments in the petroleum sector were sanctioned by Norway's parliament on 12 June and provide Pandion Energy with a significant liquidity boost. The main elements of the proposal are:

- Investments in 2020 and 2021 are immediately tax deductible in the tax base for special tax (56% tax rate)
- Investments made in 2022 and later may also be immediately deducted in the tax base for special tax if they are made pursuant to inter alia a Plan for Development and Operation (PDO) filed before 1. January 2023 and approved by the Government after 12 May 2020 but before 1 January 2024
- The uplift is increased to 24% for investments comprised by item 1 and 2 above
- The tax value of losses incurred in 2020 and 2021 (in both the ordinary tax base and in the special tax base, including the uplift of 24%) will be refunded by the state through negative instalment of tax

For Pandion the negative tax instalment arrangement is of great importance and represent equal treatment of companies in different tax positions. The arrangement with negative tax instalment means that the refund of the tax value of losses incurred in 2020 and 2021 will be refunded in advance of the tax assessment on a running basis through the instalment tax regime.

Second Quarter 2020 Summary

PANDION ENERGY

Hedging

In order to reduce the risk related to oil price fluctuations, the Company has established an oil price hedging programme. At the end of June 2020, Pandion Energy had put in place a hedging programme until end of Q2 2021. Most of the existing hedging program is based on put options, however part of the hedging is collar structures.

At the end of June, 119% of estimated after tax (33% of pre tax) oil production volumes in the period July – December 2020 had been hedged. The average floor in the hedging instruments is 39.4 USD/bbl. The hedging of more than 100% of estimated after tax oil production volumes is solely based on put options and is established in order to protect liquidity. For the period January – June 2021, 42% of after tax (12% of pre tax) oil production volumes has been hedged at an average floor price of 34 USD/bbl. Additional positions may be added to the program going forward, however, the structure, amount and levels of any further hedging will depend on how the market for commodity derivatives develops.

Following the recovery in the long term oil prices during Q2 2020, the Company has recognised a loss from hedging presented as other income. The loss amounted to USD 1.5 million in Q2 2020, of which USD 3.4 million was realised gain.

Second Quarter 2020 Summary

Operational review

Valhall & Hod fields

Production from the Valhall and Hod fields was 5.2 (5.6 in Q1 2020) thousand barrels of oil equivalents per day net to Pandion during second quarter. A slight decrease from previous quarter was mainly driven by a planned shutdown in June, thus Valhall production was not constrained by the production curtailments implemented by the MPE.

At Valhall Flank West two new wells were brought on stream during the quarter. Maersk Invincible has now concluded the nine well drilling campaign, but the rig will remain at Flank West to support stimulation operations. The rig will be moved to the field centre for plugging of wells at the old DP platform later this year.

A plan for development and operations (PDO) for the re-development of the Hod field was submitted to the authorities on 24 June. The project was originally scheduled for approval in March but was put on hold due to the outbreak of the Covid-19 pandemic and subsequent collapse in global demand for oil. The submission of the Hod PDO is a direct consequence of significant positive effects from the provisional amendments to the Petroleum tax Act enacted by the Norwegian parliament in response to the oil price crises emerging in the spring of 2020.

The Hod field will be developed in collaboration with Aker BP's alliance partners with a normally unmanned installation remotely controlled from the Valhall field centre, with very low CO_2 emissions due to power from shore. Total investments for the Hod development are estimated at around USD 600 million (gross). Production start is planned for first quarter 2022, and the recoverable reserves are estimated at around 40 million barrels of oil equivalents.

Second Quarter 2020 Summary

Covid-19 measures and consequenses

Pandion Energy continue to closely monitor the Covid-19 situation with the objective of making sure necessary measures are taken to protect staff and operations. During the quarter employees have worked from home and been requested to comply with the directions give by the Norwegian health authorities. Pandion Energy is a non-operator and not directly involved in the execution of offshore operations on a day-to day basis. However, as partner in the Valhall & Hod fields the Company is actively in dialogue with the operator to ensure that all necessary steps are taken to protect offshore personnel against the pandemic. Extensive measures have been implemented by the operator at Valhall area to ensure safe and reliable operations and during second quarter mandatory testing for all offshore personnel has been implemented by Aker BP. To date no virus-related disruption to the Valhall & Hod operations have been reported.

Except for the operations at Valhall & Hod fields, the Company is currently not directly involved in any offshore activities.

In the low oil price environment and the unknown time for recovery to previous scenarios the Company continues to take necessary steps to ensure that the Company remains financially sound also in a scenario with low oil prices for an extended period of time.

Other activities

Pandion is monitoring the pricing of its senior unsecured bond loan and considers, subject to market conditions, to take advantage of opportunities to repurchase bonds at value-accretive prices. Potential investments in the Company's own bond debt have been permitted by the lenders under the RBL facility.

Pandion Energy will continue to be an active and responsible partner in driving value in high quality assets on the Norwegian Continental Shelf. As part of this, the company actively searches for and evaluates opportunities to make value-accretive investments (e.g. through acquisitions, farm-ins, licencing rounds, swaps or other) and to divest assets to realise value created in its existing portfolio (e.g. through sale, farm-downs, swaps or other).

Responsibility statement

We confirm, to the best of our knowledge, that the interim financial statements for the period from 1 January to 30 June 2020 have been prepared in accordance with simplified IFRS pursuant to the Norwegian Accounting Act §3-9 and generally accepted accounting practice in Norway and give a true and fair view of the assets, liabilities and financial position and result of Pandion Energy AS. The notes are an integral part of the interim financial statements.

We also confirm, to the best of our knowledge, that the operational and financial review includes a fair presentation of important events that have occurred during the first six months of the financial year and their impact on the financial statements and the company's position, and a description of the principal risks and uncertainties for the remaining six months of the financial year.

Oslo, Norway, 14 August 2020

The Board of Directors and CEO of Pandion Energy AS

Alan Parsley Chairman of the Board	Jan Christian Ellefsen CEO/Board Member	Helge L. Nordtorp Board Member
Tushar Kumar Board Member	Jason Cheng Board Member	Roberta Wong Board Member

Statement of income
30 June 2020

Current quarter				Year to date		Last Year
Q2 2020	**Q2 2019**	**(Amounts in USD`000)**	**Note**	**2020**	**2019**	**2019**
17 186	20 810	Revenues		39 374	50 185	103 489
-	-	Gains from sale of assets		35 951	-	29 909
(1 502)	40	Other income		5 940	(6 796)	(8 327)
15 684	**20 850**	**Total revenues and income**	9	**81 266**	**43 389**	**125 070**
(11 884)	(10 207)	Operating expenses		(19 097)	(20 523)	(34 576)
(6 943)	(4 891)	Depreciation, amortisation and net impairment losses	1,3	(45 131)	(9 716)	(21 936)
(2 592)	(8 906)	Exploration expenses		(4 571)	(16 190)	(24 078)
(21 418)	(24 004)	Total expenses		(68 799)	(46 429)	(80 591)
(5 733)	**(3 155)**	**Profit from operating activities**		**12 466**	**(3 040)**	**44 480**
(5 273)	(2 772)	Net financial items	7	(11 102)	(8 812)	(18 780)
(11 006)	**(5 926)**	**Profit (loss) before taxes**		**1 365**	**(11 852)**	**25 700**
8 095	6 080	Income tax		3 654	5 717	329
(2 911)	**153**	**Net profit (loss)**		**5 019**	**(6 135)**	**26 029**

Statement of comprehensive income
30 June 2020

PANDION ENERGY

Current quarter		Statements of comprehensive income	Year to date		Last Year
Q2 2020	**Q2 2019**	**(Amounts in USD`000)**	**2020**	**2019**	**2019**
(2 911)	153	Net profit (loss)	5 019	(6 135)	26 029
		Items that may be subsequently reclassified to the Statement of income			
733	(547)	Net gain/losses arising from hedges recognised in OCI	(2 342)	(916)	(3 018)
501	(63)	Net amount reclassified to profit and loss	987	(183)	1 904
(272)	134	Tax on items recognised over OCI	298	241	245
963	(476)	Other comprehensive income	(1 057)	(858)	(869)
(1 949)	**(323)**	**Total comprehensive income**	**3 962**	**(6 993)**	**25 160**

Statement of financial position
30 June 2020

PANDION ENERGY

Assets

(Amounts in USD`000)	Note	30.06.2020	30.06.2019	31.12.2019
Tax receivable from exploration refund		9 796	-	-
Goodwill	2,3	93 442	124 785	124 785
Intangible assets	2,3	45 050	39 116	52 583
Property, plant and equipment	1,3	325 487	262 870	285 593
Prepayments and financial receivables		122	139	135
Right-of-use assets	10	873	1 412	1 212
Total non-current assets		**474 770**	**428 322**	**464 308**
Inventories		3 886	5 245	3 864
Trade and other receivables		8 268	7 653	14 889
Assets classified as held for sale		-	-	17 563
Financial assets at fair value through profit or loss	8	1 204	1 279	-
Tax receivable - short term	11	49 626	14 186	20 296
Cash and cash equivalents		17 317	14 837	46 557
Total current assets		**80 301**	**43 200**	**103 170**
Total assets		**555 071**	**471 521**	**567 478**

Statement of financial position
30 June 2020

Equity and liabilities

(Amounts in NOK`000)	Note	30.06.2020	30.06.2019	31.12.2019
Share capital		113 492	113 492	113 492
Other equity		25 491	(10 624)	21 529
Total equity	4	**138 982**	**102 867**	**135 021**
Deferred tax liability	11	51 898	4 329	14 455
Asset retirement obligations	5	158 690	151 687	156 875
Borrowings	6	139 046	145 093	176 027
Hedging derivatives		15 871	8 624	9 941
Long term lease debt	10	708	1 035	901
Total non-current liabilities		**366 214**	**310 768**	**358 199**
Asset retirement obligations - short term	5	14 981	11 989	16 734
Trade, other payables and provisions		19 414	36 732	33 849
Borrowings - short term	6	15 275	8 814	23 071
Financial liabilities at fair value through profit or loss	8	-	-	252
Short term lease debt	10	204	352	352
Total current liabilities		**49 874**	**57 886**	**74 258**
Total liabilities		**416 089**	**368 654**	**432 457**
Total equity and liabilities		**555 071**	**471 521**	**567 478**

Statement of cash flows
30 June 2020

		Year to date		Last year
(Amounts in USD`000)	**Note**	**Q2 2020**	**Q2 2019**	**2019**
Profit (loss) before taxes		1 365	(11 852)	25 700
Depreciation, amortisation and net impairment losses	1,3	45 178	9 716	22 021
Expensed capitalised exploration expenses	2	(85)	6 422	14 831
Accretion of asset removal liability	5,7	3 125	3 034	5 987
(Gains) losses on sales of assets		(35 951)	-	(29 909)
(Increase) decrease in value of financial asset at fair value through profit or loss	8	(5 940)	6 796	8 327
(Increase) decrease operational financial asset	8	4 142	-	-
Net financial expenses		7 977	5 778	12 793
Interest and fees paid		(5 738)	(5 664)	(14 050)
(Increase) decrease in working capital		(14 619)	14 766	14 520
Tax payable received (Paid)		-	-	8 513
Net cash flow from operating activities		**(548)**	**28 996**	**68 733**
Payment for removal and decommissioning of oil fields	5	(3 063)	(2 919)	(7 279)
Capital expenditures and investments in furniture, fixtures and office machines	1	(15)	(158)	(169)
Capital expenditures and investments in oil and gas assets	1	(38 706)	(40 742)	(126 060)
Capital expenditures and investments in exploration and evaluation assets	2	(7 406)	(19 407)	(36 388)
Cash flow from divestments		59 377	-	51 324
Net cash flow from investing activities		**10 187**	**(63 226)**	**(118 571)**
Increase interest bearing obligations, loans and borrowing		20 000	29 935	94 443
Decrease interest bearing obligations, loans and borrowing		(58 879)	-	(17 179)
Net cash flow from financing activities		**(38 879)**	**29 935**	**77 264**
Net change in cash and cash equivalents		(29 240)	(4 295)	27 424
Cash and cash equivalents at the beginning of the period		**46 557**	19 133	19 133
Cash and cash equivalents at the end of the period		**17 317**	**14 837**	**46 557**

Notes to the interim financial statements

PANDION ENERGY

NOTE 1 PROPERTY, PLANT AND EQUIPMENT

	Oil and gas assets	Tools and equipment	Total
(Amounts in USD`000)			
Carrying amount at 31 December 2018	**198 675**	**68**	**198 743**
Additions	126 060	169	126 229
Disposals	(27 226)	-	(27 226)
Asset removal obligation - change of estimate	11 340	-	11 340
Transfers to Assets held for sale	(27 260)	-	(27 260)
Transfers from intangible assets	25 789	-	25 789
Depreciation	21 936	85	22 021
Carrying amount at 31 December 2019	**285 441**	**152**	**285 594**
Additions	38 706	15	38 721
Disposals	-	(17)	(17)
Transfers from intangible assets	15 024	-	15 024
Depreciation	13 788	47	13 835
Carrying amount at 30 June 2020	**325 384**	**103**	**325 487**
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

(Amounts in USD`000)	Goodwill	Exploration and evaluation assets	Total
Carrying amount at 31 December 2018	**124 785**	**59 110**	**183 895**
Acquisition	-	198	198
Capitalised licence costs	-	36 190	36 190
Expensed exploration expenditures previously capitalised	-	(14 831)	(14 831)
Disposals	-	(1 141)	(1 141)
Transfers to Assets held for sale	-	(1 154)	(1 154)
Transfers to tangible assets	-	(25 789)	(25 789)
Carrying amount at 31 December 2019	**124 785**	**52 583**	**177 368**
Capitalised licence costs	-	7 406	7 406
Expensed exploration expenditures previously capitalised	-	85	85
Impairment	31 343	-	31 343
Transfers to tangible assets	-	(15 024)	(15 024)
Carrying amount at 30 June 2020	**93 442**	**45 050**	**138 491**

The amount of Goodwill entirely relates to the acquisition of interest in the Valhall and Hod oil fields.
Expensed exploration expenditures previously capitalised is related to relinquished licences.

Notes to the interim financial statements

PANDION ENERGY

NOTE 3 IMPAIRMENTS

Q1 2020 included impairment of goodwill amounting to USD 31 million. The amount included impairment of total amount of ordinary goodwill and part of the technical goodwill related to acquisition of interest in the Valhall and Hod oil fields. The remaining goodwill as at 30 June 2020 is USD 93 million, all technical goodwill related to the requirement to recognise deferred tax for the difference between the assigned fair values and the related tax base by purchase of Valhall & Hod fields. Prior period impairment of goodwill is not subject to reversal.

Technical goodwill is tested for impairment separately for Valhall & Hod fields which gave rise to the technical goodwill. The carrying value of Valhall & Hod fields consists of the carrying values of the oil field assets plus associated technical goodwill. When deferred tax liabilities from the acquisitions decreases as a result of depreciation, more technical goodwill as a result is exposed for impairment.

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.

In Q2 2020, two categories of impairment tests have been performed:

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

In the assessment of whether further impairment is required at 30 June 2020, Pandion Energy has used a combination of Brent forward curve from the beginning of Q3 2020 to the end of 2021, a mean of market participant view from 2022 to 2025 and a 2% inflation of the 2025 market participant view from 2026 and onwards, a future cost inflation rate of 2% per annum and a discount rate of 8% to calculate the future post tax cash flows.

Due to increase in the short-term oil and gas prices no further impairments have been recognised in Q2 2020.

Notes to the interim financial statements

PANDION ENERGY

NOTE 4 EQUITY AND SHAREHOLDERS

(Amounts in USD`000)

	Share Capital	Other reserves	Retained earnings	Total equity
Shareholders' equity at 31 December 2018	**113 491**	**(2 577)**	**(1 054)**	**109 861**
Net income for the period	-	-	26 029	**26 029**
Other comprehensive income (loss) for the period	-	(869)	-	**(869)**
Shareholders' equity at 31 December 2019	**113 491**	**(3 446)**	**24 975**	**135 021**
Net income for the period	-	-	5 019	**5 019**
Other comprehensive income (loss) for the period	-	(1 057)	-	**(1 057)**
Shareholders' equity at 30 June 2020	**113 491**	**(4 503)**	**29 994**	**138 982**

Share capital of NOK 911 921 294 comprised 911 921 294 shares at a nominal value of NOK 1,00.

A Subscription and Investment Agreement between Pandion Energy 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 Energy.

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, however not an obligation to provide additional funds in an amount up to 110 USD million, resulting in an aggregate funding up to 300 USD million.

In 2018, Pandion Energy Holding AS was established and all shares in Pandion Energy AS were transferred to Pandion Energy Holding AS. Pandion Energy Holding AS owns all 911 921 294 shares as at 31 December 2018. The Company is included in the consolidated financial statements of the parent company Pandion Energy Holding AS. The consolidated financial statements of Pandion Energy Holding AS can be obtained at the company's registered address Lilleakerveien 8, 0283 Oslo.

Notes to the interim financial statements

NOTE 5 ASSET RETIREMENT OBLIGATIONS

(Amounts in USD`000)	**Asset retirement obligations**
Asset retirement obligations at 31 December 2018	**163 561**
New or increased provisions	12 890
Asset removal obligation - change of estimate	(1 550)
Amounts charged against asset retirement obligations	(7 279)
Accretion expenses	5 987
Asset retirement obligations at 31 December 2019	**173 609**
Amounts charged against asset retirement obligations	(3 063)
Accretion expenses	3 125
Asset retirement obligations at 30 June 2020	**173 671**
Non-current portion 30 June 2020	*158 690*
Current portion 30 June 2020	*14 981*

The calculations assume an inflation rate of 2.0 per cent and a nominal rate before tax of 4.0 per cent.

Notes to the interim financial statements

NOTE 6 BORROWINGS

Revolving Exploration Loan Facility

	Facility currency	Utilised amount	Undrawn facility	Interest	Maturity	Carrying amount
(Amounts in USD'000)						
At 30 June 2020	NOK	15 509	25 540	NIBOR + 1.25 %	Nov 2021	15 275
At 31 December 2019	NOK	23 208	22 348	NIBOR + 1.25 %	Nov 2020	23 071

The total credit limit for the Company at 30 June 2020 was TNOK 400 000.

The Company signed a Revolving Exploration Finance Facility Agreement ("EFF") 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 facility was until 31.12.2019. The Company has extended the availability period by one year. The EFF can be drawn until 31.12.2020 with repayment in Q4 2021.

Unsecured Bond

	Facility currency	Utilised amount	Interest	Maturity	Carrying amount
(Amounts in USD'000)					
At 30 June 2020	NOK	50 967	10.61%	April 2023	40 388
At 31 December 2019	NOK	50 967	10.61%	April 2023	44 607

The bond is an unsecured bond of 400 million NOK and runs from April 2018 to April 2023. Utilised amount in USD reflects the exchange rate at the inception date for the bond. The bond has been swapped into USD using a cross currency swap, removing all foreign exchange risk both on coupons and notional. The interest payments have been fixed using an interest rate swap. The fixed all in rate after the swaps is 10.61%. The bond has similar covenants as the RBL facility.

Notes to the interim financial statements

PANDION ENERGY

NOTE 6 BORROWINGS (cont)

Reserve Base Lending Facility Agreement (RBL)

	Facility currency	Utilised amount	Undrawn facility	Interest	Maturity	Carrying amount
(Amounts in USD'000)						
At 30 June 2020	USD	100 000	50 000	LIBOR + 3.5%	July 2026	97 658
At 31 December 2019	USD	133 100	16 900	LIBOR + 3.5%	July 2026	130 419

The RBL facility was established in 2018 and is a senior secured seven-year facility. In 2019 the RBL lenders approved to postpone the Final Maturity Date from 9 April 2025 to 1 July 2026. The facility is at USD 150 million with an additional uncommitted accordion option of USD 150 million. The interest rate is from 1-6 months LIBOR 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.

PANDION ENERGY

NOTE 6 BORROWINGS (cont)

Non-current Liabillities to related parties

By entering into a subscription agreement with Kerogen Investment no.28 Pandion Energy has agreed to pay a commitment fee as listed below:

	Facility currency	Loan amount
Kerogen Investment no. 28 Limited	USD	1 000

Kerogen Investments no.28 Limited`s rights and claims for such Commitment Fee is subordinated to the rights and claims of all other existing creditors of Pandion.

Maturity profile on total borrowings based on contractual undiscounted cash flows

	30.06.2020	2019
(Amounts in USD`000)		
Less than 12 months	15 509	23 208
1 to 5 years	50 967	50 967
Over 5 years	101 000	134 100
Total	**167 476**	**208 275**

Notes to the interim financial statements

PANDION ENERGY

NOTE 7 FINANCIAL ITEMS

	Current quarter		Year to date		Last year
	Q2 2020	**Q2 2019**	**2020**	**2019**	**2019**
(Amounts in USD`000)					
Net foreign exchange gains (losses)	(676)	1 129	(1 397)	771	(101)
Interest income	2	36	66	67	192
Amortised loan costs	(196)	(227)	(444)	(444)	(678)
Accretion expenses	(1 569)	(1 514)	(3 125)	(3 034)	(5 987)
Interest expenses	(2 855)	(2 027)	(6 094)	(5 983)	(11 948)
Other financial items	22	(168)	(107)	(190)	(259)
Net financial items	**(5 273)**	**(2 772)**	**(11 102)**	**(8 812)**	**(18 780)**

Notes to the interim financial statements

PANDION ENERGY

NOTE 8 FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

(Amounts in USD`000)	
Financial assets at 31 December 2018	**8 075**
Expired contracts at cost	(3 843)
Financial assets at 31 December 2019 before value increase/decrease	**4 232**
Value increase (decrease)	(4 484)
Financial assets at 31 December 2019	**(252)**
Net realised gain	4 866
Expired contracts at cost	(525)
Financial assets at 30 June 2020 before value increase/decrease	**4 089**
Value increase (decrease)	(2 885)
Financial assets at 30 June 2020	**1 204**

The Company has focused on securing liquidity and thus entered an oil price hedging program to reduce the risk related to oil prices. At the end of June 2020, Pandion Energy had put in place a hedging programme until end of Q2 2021. Most of the existing hedging program is based on put options, however part of the hedging is collar structures.

Notes to the interim financial statements

PANDION ENERGY

NOTE 9 SEGMENT INFORMATION AND DISAGGREGATION OF REVENUE

All revenues are generated from activities on the Norwegian continental shelf (NCS), and derives from Oil, Gas and NGL. As a result, Pandion Energy has decided not to include segment information as this would only state the same financials already presented in the income statement and balance sheet.

The Company's revenue is disaggregated as follows:

	Current quarter		Year to date		Last year
Revenues	**Q2 2020**	**Q2 2019**	**Q2 2020**	**Q2 2019**	**2019**
Oil	15 119	18 762	33 209	45 071	93 926
Gas	828	1 299	4 601	3 766	8 028
NGL	1 240	749	1 563	1 348	1 484
Other	-	-	-	-	50
Total revenues	**17 186**	**20 810**	**39 374**	**50 185**	**103 489**

	Current quarter		Year to date		Last year
Other income	**Q2 2020**	**Q2 2019**	**Q2 2020**	**Q2 2019**	**2019**
Realised gain/(loss) on oil derivates	3 400	(1 055)	4 341	(1 832)	(3 843)
Unrealised gain/(loss) on oil derivates	(4 902)	1 095	1 599	(4 964)	(4 484)
Total other income	**(1 502)**	**40**	**5 940**	**(6 796)**	**(8 327)**

Notes to the interim financial statements

PANDION ENERGY

NOTE 10 LEASING AND COMMITMENTS

Pandion Energy adopted the accounting standard IFRS 16 Leases on 1 January 2019. The Company adopted the modified retrospective approach upon transition, which has resulted in all the transition impact being reported as adjustments to opening balances, and comparative periods have not been restated. The difference between the operating lease commitments after IAS 17, as disclosed in the 2019 financial statements, and lease debt recognised at initial application is reconciled in the table below. Short term leases (less than 12 months) and low value leases have not been included. The lease does not contain any restriction on the company's dividend policy or financing. Extension options are included when it, based on management's judgement, is reasonably certain to be exercised. The incremental borrowing rate applied in discounting of the nominal lease debt is 7 per cent.

	2019
(Amounts in USD`000)	
Operating lease commitments as at 31.12.2018	**33 104**
Partner-licences rigs excluded	(31 871)
Adjustments related to option extension and termination clauses	356
Nominal lease debt 01.01.2019	**1 589**
Discounting	359
Operating lease debt as at 01.01.2019	**1 230**
New lease debt recognized in the period	375
Lease payments	(367)
Interest expense	92
Currency adjustments	(77)
Total lease debt after IFRS 16 at 31.12.2019	**1 253**
Remeasurement lease liability	55
New lease debt recognised in the period	12
Derecognition of lease liability	(234)
Lease payments	(238)
Interest expense	30
Currency adjustments	35
Total lease debt after IFRS 16 at 30.06.2020	**912**

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

Right-of-use assets – increase by USD 1,230 thousand
Long term lease liabilities – increase by USD 940 thousand
Short term lease liabilities – increase by USD 289 thousand

PANDION ENERGY

NOTE 10 LEASING AND COMMITMENTS (cont)

Pandion Energy has recognised the lease related to office facilities as a lease after IFRS 16. The original contract runs for five years from 2018 and contains a renewal option for another three years. The company has entered into an additional agreement for extra office space running from June 2019. The lease has an arrangement with contingent payment if the Company brings the lease to an end after three years. The Contingent payment will then be equal to six months rental payment. The lease does not contain any restriction on the company`s dividend policy or financing.

Nominal lease debt maturity break down	**30.06.2020**	**31.12.2019**
Within 1 year	258	533
1 to 5 years	669	1 040
After 5 years	-	-
Total	**927**	**1 573**

Pandion Energy is a non-operator and recognises its proportionate share of a lease when Pandion Energy is considered to share the primary responsibility for a licence committed liability. This includes contracts were Pandion has co-signed a lease contract, or contracts for which the operator has been given a legally binding mandate to sign the external lease on behalf of the licence partners.

The Company has commitments pertaining to its ownership in partner operated oil and gas fields where the operator has entered into lease agreements for rigs in the licence. For Valhall, the operator has entered into a lease agreement for Maersk Invincible, delivered in May 2017. The contract period is five years, with an additional two years option period.

Commitments partner-licences rigs	**30.06.2020**	**31.12.2019**
Within 1 year	8 216	8 860
1 to 5 years	7 003	10 391
After 5 years	-	-
Total	**15 219**	**19 251**

Two exploration wells (PL 263 and PL 891) are decided to be drilled during 2020 where lease agreements for a rig have been entered into by the operator on behalf of partners. These lease commitments are not included in the above overview.

Notes to the interim financial statements

PANDION ENERGY

NOTE 11 TAX

Certain temporary changes in the Norwegian Petroleum Tax Law were enacted on 19 June 2020. These changes included a temporary ruling for depreciation and uplift, whereas all investments incurred for income years 2020 and 2021 including 24 percent uplift can be deducted from the basis for special tax in the year of investment. These changes also apply for all investments according to Plans for Development and Operation delivered within 31 December 2022 and approved within 31 December 2023. In addition, the tax value of any losses incurred in 2020 and 2021 will be refunded from the state. The tax effect for 2020 of the temporary changes are included as of Q2 and contributes to increase in deferred tax liabilities and increase in tax receivable – short term.

Notes to the interim financial statements

PANDION ENERGY

NOTE 12 CONTINGENT LIABILITIES AND ASSETS

The Company has secondary obligation for removal cost of offshore installations related to 20% share in the divested Duva field. The obligation is limited to approximately USD 5.5 million.

Pandion Energy is further required to participate in the approved work programmes for the licences. The Company's operations involve risk of damages, including pollution. The Company has insured its pro rata liability on the NCS on a par with other oil companies.

The Company was not subject to any legal disputes at 30 June 2020.

Alternative performance measures

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

EBITDAX – Earnings before interest, tax, depreciation, amortisation and exploration

Corporate sources – Cash balance, revenues, equity and external funding

Corporate uses - Operating expenditures, capital expenditures, abandonment expenditures, general and administration costs, exploration costs, acquisition costs and financing costs

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