

OKEA AS

Statement of Comprehensive Income

Amounts in NOK `000	Q2 2018 (unaudited)	Q2 2017 (unaudited)	YTD Q2 2018 (unaudited)	YTD Q2 2017 (unaudited)	Year 2017 (audited)
Revenues from crude oil and gas sales	27 825	1 583	30 139	2 455	38 429
Other operating income	-8 582	7 447	5 440	14 672	5 007
Total operating income	19 242	9 030	35 578	17 126	43 435
Production expenses	-2 235	-1 764	-4 625	-3 396	-7 654
Exploration expenses	-15 524	-1 416	-26 735	-4 914	-28 710
Depreciation, depletion and amortization	-5 822	-4 509	-11 704	-8 247	-18 025
Employee benefits expenses	1 446	-4 655	-9 587	-11 329	-11 707
Other operating expenses	-16 131	-15 146	-20 448	-21 229	-33 128
Total operating expenses	-38 267	-27 490	-73 100	-49 114	-99 223
Profit / loss (-) from operating activities	-19 025	-18 460	-37 522	-31 988	-55 788
Finance income	11 077	176	4 046	333	2 392
Finance costs	-58 517	-5 179	-46 290	-6 596	-27 098
Net financial items	-47 441	-5 003	-42 244	-6 263	-24 706
Profit / loss (-) before income tax	-66 465	-23 463	-79 766	-38 251	-80 494
Income taxes	34 346	17 063	47 161	29 141	68 780
Net profit / loss (-)	-32 119	-6 400	-32 605	-9 110	-11 714
Other comprehensive income:					
Total other comprehensive income	-	-	-	-	-
Total comprehensive income / loss (-)	-32 119	-6 400	-32 605	-9 110	-11 714

OKEA AS

Balance Sheet

Amounts in NOK `000	Note	30.06.2018 (unaudited)	30.06.2017 (unaudited)	31.12.2017 (audited)
ASSETS				
Non-current assets				
Deferred tax assets	6	111 033	53 431	85 091
Goodwill		8 057	8 057	8 057
Exploration and evaluation assets		5 752	4 752	5 752
Oil and gas properties	7	795 135	627 800	676 378
Furniture, fixtures and office equipment	7	214	221	217
Other financial non-current assets		21 644	12 740	-
Total non-current assets		941 835	707 002	775 495
Current assets				
Trade and other receivables		119 510	102 738	120 207
Restricted cash		2 219 341	-	907 799
Cash and cash equivalents		73 066	27 976	29 609
Total current assets		2 411 918	130 715	1 057 615
TOTAL ASSETS		3 353 753	837 716	1 833 110
EQUITY AND LIABILITIES				
Equity				
Share capital	8	3 715	24 738	24 738
Share premium		595 991	470 755	470 755
Not registered share capital		-	25 000	-
Other paid in capital		556	-	-
Accumulated loss		-54 272	-19 062	-21 667
Total equity		545 990	501 431	473 827
Non-current liabilities				
Provisions	9	322 668	203 024	319 668
Interest-bearing loans and borrowings	10	2 355 029	-	963 312
Total non-current liabilities		2 677 697	203 024	1 282 979
Current liabilities				
Trade and other payables		123 035	50 853	66 013
Intercompany loan		1 141	6 332	1 141
Public dues payable		2 570	2 360	3 596
Provisions, current		3 320	73 716	5 554
Total current liabilities		130 066	133 261	76 304
Total liabilities		2 807 763	336 285	1 359 283
TOTAL EQUITY AND LIABILITIES		3 353 753	837 716	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					-32 605	-32 605
Effect of equity restructuring	-21 613	21 613				0
Share issues	590	103 622				104 212
Share based payment			556			556
Equity at 30 June 2018	3 715	595 991	556	-	-54 272	545 990

Statement of Cash Flows

Amounts in NOK `000	Q2 2018 (unaudited)	Q2 2017 (unaudited)	YTD Q2 2018 (unaudited)	YTD Q2 2017 (unaudited)	Year 2017 (audited)
Cash flow from operating activities					
Profit / loss (-) before income tax	-66 465	-23 463	-79 766	-38 251	-80 494
Income tax paid/received	-	-	-	-	3 740
Depreciation, depletion and amortization	5 822	4 509	11 704	8 247	18 025
Accretion ARO	1 500	1 500	3 000	3 000	6 001
Change in trade and other receivables	12 573	6 479	697	2 823	-6 420
Change in trade and other payables	5 269	4 023	54 318	10 030	17 485
Change in other non-current items	37 874	-1 142	-7 347	-1 142	4 385
Net cash flow from / used in (-) operating activities	-3 427	-8 094	-17 394	-15 293	-37 278
Cash flow from investing activities					
Investment in exploration and evaluation assets	-	-	-	-	-999
Investment in oil and gas properties	-84 091	-58 898	-130 458	-125 478	-123 099
Investment in furniture, fixtures and office machines	-	-	-	-	-
Investment in (-)/release of restricted cash	-1 359 709	-	-1 311 542	-	-907 799
Net cash flow from / used in (-) investing activities	-1 443 800	-58 898	-1 442 000	-125 478	-1 031 897
Cash flow from financing activities					
Proceeds from intercompany borrowings	-	12 051	-	65 359	92 280
Repayment of intercompany borrowings	-	-	-	-	-58 300
Net proceeds from borrowings, bond loan	1 399 065	-	1 399 065	-	961 415
Net proceeds from share issues	-	65 500	103 787	65 500	65 500
Net cash flow from / used in (-) financing activities	1 399 065	77 551	1 502 852	130 859	1 060 895
Net increase/ decrease (-) in cash and cash equivalents	-48 163	10 559	43 458	-9 912	-8 280
Cash and cash equivalents at the beginning of the period	121 230	17 418	29 609	37 889	37 889
Cash and cash equivalents at the end of the period	73 066	27 976	73 066	27 976	29 609
Restricted cash at the end of the period	2 219 341	0	2 219 341	0	907 799
Restricted and unrestricted cash at the end of the period	2 292 408	27 976	2 292 408	27 976	937 408

Notes to the interim financial statements second quarter 2018

Note 1 - General and corporate information

These financial statements are the unaudited interim condensed financial statements of OKEA AS for the second 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. In addition the Company has adopted the IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers effective from 1 January 2018. The implementation of these standards did not have any effect on the financial statements.

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 Taxes

Income taxes recognised in the income statement

Amounts in NOK `000	YTD Q2 2018	YTD Q2 2017	Year 2017
Change in deferred taxes	25 517	16 401	48 061
Tax refund current year	21 644	12 740	20 719
Total income taxes recognised in the income statement	47 161	29 141	68 780

Reconciliation of income taxes

Amounts in NOK `000	YTD Q2 2018	YTD Q2 2017	Year 2017
Profit / loss (-) before income taxes	-79 766	-38 251	-80 494
Expected income tax at nominal tax rate, 23% (2017: 24%)	18 346	9 180	19 319
Expected petroleum tax, 55% (2017: 54%)	43 871	20 655	43 467
Permanent differences	-569	-115	-208
Effect of uplift	7 191	2 884	10 181
Financial items	-21 679	-2 826	-8 766
Effect of new tax rates	-	-	337
Adjustments previous year and other	-	-637	4 450
Total income taxes recognised in the income statement	47 161	29 141	68 780
Effective income tax rate	59 %	76 %	85 %

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

Amounts in NOK `000	30.06.2018	30.06.2017	31.12.2017
Tangible and intangible non-current assets	-361 222	-273 233	-335 377
Provisions	246 471	215 858	245 873
Interest-bearing loans and borrowings	-9 087	-	-5 069
Current items	-4 430	-	-2 526
Tax losses carried forward, offshore 23%	73 502	30 344	51 824
Tax losses carried forward, offshore 55%	128 762	63 152	100 520
Uplift carried forward, offshore 55%	37 038	17 311	29 847
Total deferred tax assets / liabilities (-) recognised	111 033	53 431	85 091

Deferred tax is calculated based on tax rates applicable on the balance sheet date. Ordinary income tax is 23%, to which is added a special tax for oil and gas companies at the rate of 55%, 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 7 Tangible assets

Amounts in NOK `000	Oil and gas properties in production	Oil and gas properties under development	Furniture, fixtures and office machines	Total
Cost at 1 January 2018	141 524	553 044	233	694 800
Additions	4 844	125 614	-	130 458
Cost at 30 June 2018	146 368	678 657	233	825 258
Accumulated depreciation and impairment at 1 January 2018	-18 189	-	-15	-18 205
Depreciation year to date	-11 701	-	-3	-11 704
Accumulated depreciation and impairment at 30 June 2018	-29 891	-	-18	-29 909
Carrying amount at 30 June 2018	116 477	678 657	214	795 349

Note 8 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	2 276 744	-	2 276 744
Number of outstanding shares at 30 June 2018	3 715 144	-	3 715 144
Nominal value NOK per share at 30 June 2018			1
Share capital NOK at 30 June 2018			3 715 144

Note 9 Provisions

Amounts in NOK `000	Total non- current
Provision at 1 January 2018	319 668
Additions and adjustments	-
Changes in Operator's estimate	-
Unwinding of discount	3 000
Total provisions at 30 June 2018	322 668

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. 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 10 Interest-bearing loans and borrowings

Amounts in NOK `000	
Interest bearing loans and borrowings 1 January 2018	963 312
Net proceeds from borrowings, bond loan *	1 399 065
Amortization of transaction costs, bond loan	3 459
Foreign exchange movement, bond loan	-10 806
Interest bearing loans and borrowings at 30 June 2018	2 355 029

* 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 will be used to finance the acquisition of interests in the Draugen and Gjøa fields from A/S Norske Shell (see note 11 for further information). The net proceeds from the bond issue have been converted into NOK and placed on an escrow account until released when the equity financing of the acquisition is completed.

Note 11 - Major events and transactions

In June 2018 OKEA AS reached an agreement with A/S Norske Shell to buy Shell's entire 44.56% interest in Draugen and 12.00% interest in Gjøa for USD 556 million (NOK 4,520 million).

The transaction is subject to regulatory approval and is expected to complete in Q4 2018. The transaction's expected effective date is 1 January 2018. Upon completion OKEA will become the new operator of Draugen.

The decommissioning costs associated with the assets are currently estimated to be USD 120 million after-tax (NOK 1,000 million); Shell will retain 80% of this liability up to an agreed cap and OKEA will assume the remaining liability.

The transaction is NOK denominated and all USD figures are based on a NOK/USD exchange rate of 8.13 (published Norges Bank as of 15 June 2018).

Note 12 - Events after the balance sheet date

OKEA has entered into an exploration financing facility agreement and funds drawn in July 2018 is NOK 31.65 million. The facility is limited up to NOK 300 million.