

OKEA AS

Statement of Comprehensive Income

	Note	Q3 2018 (unaudited)	Q3 2017 (unaudited)	YTD Q3 2018 (unaudited)	YTD Q3 2017 (unaudited)	Year 2017 (audited)
Amounts in NOK `000						
Revenues from crude oil and gas sales		22 417	1 726	52 555	4 180	38 429
Other operating income	12	112 437	6 946	117 877	21 618	5 007
Total operating income		134 854	8 672	170 432	25 798	43 435
Production expenses		-2 463	-1 919	-7 089	-5 315	-7 654
Exploration expenses		-11 446	-3 687	-38 181	-8 601	-28 710
Depreciation, depletion and amortization	7	-6 232	-4 811	-17 936	-13 058	-18 025
Employee benefits expenses		-6 262	-7 714	-15 849	-19 043	-11 707
Other operating expenses		-32 964	-3 679	-53 412	-24 908	-33 128
Total operating expenses		-59 367	-21 810	-132 467	-70 924	-99 223
Profit / loss (-) from operating activities		75 487	-13 138	37 965	-45 126	-55 788
Finance income		6 003	145	10 049	478	2 392
Finance costs		-111 692	-6 116	-157 982	-12 711	-27 098
Net financial items		-105 690	-5 970	-147 934	-12 233	-24 706
Profit / loss (-) before income tax		-30 202	-19 109	-109 969	-57 359	-80 494
Income taxes	6	-34 154	12 667	13 007	41 808	68 780
Net profit / loss (-)		-64 356	-6 442	-96 962	-15 551	-11 714
Other comprehensive income:						
Total other comprehensive income		-	-	-	-	-
Total comprehensive income / loss (-)		-64 356	-6 442	-96 962	-15 551	-11 714

OKEA AS

Balance Sheet

Amounts in NOK `000	Note	30.09.2018 (unaudited)	30.09.2017 (unaudited)	31.12.2017 (audited)
ASSETS				
Non-current assets				
Deferred tax assets	6	70 231	67 255	85 091
Goodwill		8 057	8 057	8 057
Exploration and evaluation assets		6 369	4 752	5 752
Oil and gas properties	7	862 326	626 406	676 378
Furniture, fixtures and office equipment	7	212	219	217
Other financial non-current assets		28 292	11 583	-
Total non-current assets		975 488	718 273	775 495
Current assets				
Trade and other receivables		247 959	98 446	120 207
Restricted cash		2 162 488	-	907 799
Cash and cash equivalents		56 909	4 015	29 609
Total current assets		2 467 356	102 462	1 057 615
TOTAL ASSETS		3 442 844	820 734	1 833 110
EQUITY AND LIABILITIES				
Equity				
Share capital	8	3 715	24 738	24 738
Share premium		595 991	470 755	470 755
Other paid in capital		958	-	-
Accumulated loss		-118 628	-25 504	-21 667
Total equity		482 036	469 989	473 827
Non-current liabilities				
Provisions	9	324 168	204 524	319 668
Interest-bearing loans and borrowings	10	2 356 758	-	963 312
Total non-current liabilities		2 680 926	204 524	1 282 979
Current liabilities				
Trade and other payables		234 031	20 206	66 013
Current borrowings, exploration loan	11	38 825	-	-
Intercompany loan		1 141	49 829	1 141
Public dues payable		2 028	2 009	3 596
Provisions, current		3 856	74 177	5 554
Total current liabilities		279 882	146 221	76 304
Total liabilities		2 960 808	350 745	1 359 283
TOTAL EQUITY AND LIABILITIES		3 442 844	820 734	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					-96 962	-96 962
Effect of equity restructuring	-21 613	21 613				0
Share issues	590	103 622				104 212
Share based payment			958			958
Equity at 30 September 2018	3 715	595 991	958	-	-118 628	482 036

Statement of Cash Flows

Amounts in NOK `000	Q3 2018 (unaudited)	Q3 2017 (unaudited)	YTD Q3 2018 (unaudited)	YTD Q3 2017 (unaudited)	Year 2017 (audited)
Cash flow from operating activities					
Profit / loss (-) before income tax	-30 202	-19 109	-109 969	-57 359	-80 494
Income tax paid/received	-	-	-	-	3 740
Depreciation, depletion and amortization	6 232	4 811	17 936	13 058	18 025
Accretion ARO	1 500	1 500	4 501	4 501	6 001
Interest expense	51 643	-	88 113	-	-
Change in trade and other receivables	-128 449	4 292	-127 752	7 115	-6 420
Change in trade and other payables	92 927	-30 998	147 326	-20 969	17 485
Change in other non-current items	2 904	577	-4 443	-566	4 385
Net cash flow from / used in (-) operating activities	-3 446	-38 928	15 711	-54 221	-37 278
Cash flow from investing activities					
Investment in exploration and evaluation assets	-617	-	-617	-	-999
Investment in oil and gas properties	-73 422	-2 954	-203 879	-128 432	-123 099
Investment in furniture, fixtures and office machines	-	-	-	-	-
Investment in (-)/release of restricted cash	56 853	-	-1 254 689	-	-907 799
Net cash flow from / used in (-) investing activities	-17 185	-2 954	-1 459 186	-128 432	-1 031 897
Cash flow from financing activities					
Proceeds from intercompany borrowings	-	17 921	-	83 280	92 280
Repayment of intercompany borrowings	-	-	-	-	-58 300
Net proceeds from borrowings, bond loan	-	-	1 399 065	-	961 415
Net proceeds from borrowings, exploration loan	37 650	-	37 650	-	-
Interest paid	-33 176	-	-69 728	-	-
Net proceeds from share issues	-	-	103 787	65 500	65 500
Net cash flow from / used in (-) financing activities	4 474	17 921	1 470 774	148 780	1 060 895
Net increase/ decrease (-) in cash and cash equivalents	-16 158	-23 961	27 300	-33 873	-8 280
Cash and cash equivalents at the beginning of the period	73 066	27 976	29 609	37 889	37 889
Cash and cash equivalents at the end of the period	56 909	4 015	56 909	4 015	29 609
Restricted cash at the end of the period	2 162 488	0	2 162 488	0	907 799
Restricted and unrestricted cash at the end of the period	2 219 397	4 015	2 219 397	4 015	937 408

Notes to the interim financial statements third quarter 2018

Note 1 - General and corporate information

These financial statements are the unaudited interim condensed financial statements of OKEA AS for the third 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 Q3 2018	YTD Q3 2017	Year 2017
Change in deferred taxes	-15 285	30 225	48 061
Tax refund current year	28 292	11 583	20 719
Total income taxes recognised in the income statement	13 007	41 808	68 780

Reconciliation of income taxes

Amounts in NOK `000	YTD Q3 2018	YTD Q3 2017	Year 2017
Profit / loss (-) before income taxes	-109 969	-57 359	-80 494
Expected income tax at nominal tax rate, 23% (2017: 24%)	25 293	13 766	19 319
Expected petroleum tax, 55% (2017: 54%)	60 483	30 974	43 467
Permanent differences	-1 061	-178	-208
Effect of uplift	13 048	4 383	10 181
Financial items	-75 573	-5 733	-8 766
Effect of new tax rates	-	-	337
Change valuation allowance	-9 182	-	-
Adjustments previous year and other	-	-1 405	4 450
Total income taxes recognised in the income statement	13 007	41 808	68 780
Effective income tax rate	12 %	73 %	85 %

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

Amounts in NOK `000	30.09.2018	30.09.2017	31.12.2017
Tangible and intangible non-current assets	-381 489	-288 232	-335 377
Provisions	248 059	217 387	245 873
Interest-bearing loans and borrowings	-14 113	-	-5 069
Current items	6 877	-	-2 526
Tax losses carried forward, offshore 23%	1 551	-	-
Tax losses carried forward, offshore 23%	75 114	39 411	51 824
Tax losses carried forward, offshore 55%	100 520	80 646	100 520
Uplift carried forward, offshore 55%	42 895	18 043	29 847
Valuation allowance (uncapitalised deferred tax asset)	-9 182	-	-
Total deferred tax assets / liabilities (-) recognised	70 231	67 255	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	6 034	197 845	-	203 879
Cost at 30 September 2018	147 558	750 889	233	898 680
Accumulated depreciation and impairment at 1 January 2018	-18 189	-	-15	-18 205
Depreciation year to date	-17 931	-	-5	-17 936
Accumulated depreciation and impairment at 30 September 2018	-36 121	-	-20	-36 141
Carrying amount at 30 September 2018	111 437	750 889	212	862 539

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 September 2018	3 715 144	-	3 715 144
Nominal value NOK per share at 30 September 2018			1
Share capital NOK at 30 September 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	4 501
Total provisions at 30 September 2018	324 168

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 at 1 January 2018	963 312
Net proceeds from borrowings, bond loan *	1 399 065
Amortization of transaction costs, bond loans	7 924
Foreign exchange movement, bond loans	-13 542
Interest bearing loans and borrowings at 30 September 2018	2 356 758

* 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 12 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 Current borrowings, exploration loan

Amounts in NOK `000	
Current borrowings, exploration loan at 1 January 2018	-
Net proceeds from current borrowings, exploration loan *	37 650
Amortization of transaction costs, exploration loan	1 175
Current borrowings, exploration loan at 30 September 2018	38 825

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

Note 12 - Major events and transactions

In June 2018 OKEA AS reached an agreement with AS 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 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).

The Ministry of Petroleum and Energy and the Ministry of Finance has approved the transaction, and the The Ministry of Petroleum has also approved OKEA as new operator for the Draugen field. AS Norske Shell and OKEA aims to close the transaction on 30 November 2018. The transaction's effective date is 1 January 2018.

In September 2018 SBM Offshore reached an agreement for final settlement of insurance claim related to the Yme project. OKEA's share of this settlement is estimated to be NOK 115 million, and the amount is included in other operating income in Q3 2018.

Note 13 - Events after the balance sheet date

In October 2018 OKEA completed a private placement. A total of 475,000 new shares were issued at NOK 231.46 per share raising gross proceeds of approximately NOK 110 million. New share capital after the share issue is NOK 4,190,144 divided into 4,190,144 shares each with a par value of NOK 1. In addition a total of 85,353 warrants were issued to new and existing shareholders.

Agreed completion for the sale of a 15% interest in PL038D Grevling to Chrysaor Norge AS is 15 November 2018. Effective Date for the transaction is 1 January 2018.