OKEA

2018 › Annual Report

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Board of Director's Report

BOARD OF DIRECTORS' REPORT 2018

In 2018, OKEA AS (the "Company") transformed into a sizeable offshore operator, with a daily production of more than 20,000 boepd (barrels of oil equivalent per day) and proven and probable reserves (2P/P50) of 52.4 mmboe (million barrels of oil equivalent). The most significant event was the NOK 4,520 million acquisition of a 44.56% working interest in the Draugen Field ("Draugen") and a 12% working interest in the Gjøa Field ("Gjøa") from A/S Norske Shell ("Shell") and related assets ("Shell Transaction"). With the Shell Transaction, the Company became operator of the Draugen Field and continues to build strong organizational capabilities in support of its primary business focus with the objective to become one of the most successful Norwegian Continental Shelf ("NCS") developer and operator of small to medium size fields.

The Company, a pure NCS operator, with its head office in Trondheim, operations center in Kristiansund, and offices in Stavanger and Oslo, performs significant offshore and onshore operations related to hydrocarbon production and development of new oil and gas fields. The execution of this work is done through the coordination of several in-house functions in the Company, as well as with assistance from, and in cooperation with, third party contractors and license partners. Health, Safety, Security and Environment ("HSSE") is of utmost importance to the Company and its Board of Directors ("Board"). The Board devotes significant time and resources to ensure that the Company meets all regulations and incorporates the highest HSSE standards in all of the Company's activities. The Company has had no serious incidents, or any recordable incidents related to the Company's activities in 2018.

The Board is working on the assumption that there will be continued challenging macro environment for oil and gas producers, with volatile commodity prices and exchange rates. The Company is therefore building an efficient and streamlined organization, capable of creating growth through the profitable development of medium and smaller sized discoveries. As the NCS matures, the Board is convinced that the average size of new discoveries over time will decrease and believes that there will be significant future opportunities to develop medium and smaller sized oil and gas discoveries, just as has been the case in other mature areas like the UK continental shelf and the Gulf of Mexico.

The Company's 2P/P50 reserves were estimated at 52.4 million boe at the end of the year, a five-fold increase, mainly due to the completion of the Shell Transaction. The contingent resources (2C/Base) were 40.5 million boe, principally within the Grevling, Draugen and Gjøa licences. The Company's average net production in 2018 was 2,412 boepd, including the effect of the Draugen and Gjøa licences from December 2018. The split between production of oil and gas was approximately 70% - 30%. The Board believes that in the current oil price environment, with planned cost reduction programs and the incorporation of additional in– and near field resources, Draugen could continue to produce economically for many years after current license period expires in 2024.

The Yme New Development ("YND") project continues to move forward as planned, with first oil expected in April 2020 as originally sanctioned. YND is expected to provide the Company with significant production in the years to come and work to extend the lifespan of the platform to 15 years has already started and is progressing well.

During 2018 the Company completed the sale of a 15% working interest in the Company operated Grevling license (PL038D) to Chrysaor. The effective date for the transaction was 1 January 2018, resulting in the Company now holding a 55% working interest in the license.

The Company was awarded four new licences – of which three as operator - in the 2018 Awards in Predefined Areas (APA). The Board believes that these will provide significant organic growth opportunities in both the near and medium term and work is ongoing to finalize work programs. The Company will continue to identify and apply for opportunities in strategically focused areas.

Over the course of 2018 the share capital has been increased through several capital increases, both through cash injections and through conversion of debt. Net proceeds from the capital increases amounted to NOK 1,137 million. The cash injections were made for working capital purposes prior to closing the Shell Transaction and to finance the Shell Transaction. Through these share capital increases Bangchak Corporation Public Company Limited ("Bangchak") became a major investor in the Company, while OKEA Holdings Ltd., a Secreast Capital Group Ltd Company ("Seacrest"), remain a significant investor in the Company.

As part of the share issue in September 2018, the Company has the stated objective to list its shares on the Oslo Stock Exchange in 2019. The shareholders support this objective and have agreed to undertake reasonable efforts in its preparation and completion of this objective. The processes relating to the initial public offering ("IPO") are ongoing. Timing and final execution will depend on the market conditions prevailing at that time.

In addition to raising new equity, the Company issued USD 180 million in a secured bond loan in June 2018 to finance the Shell Transaction. The Company now has secured bond loans of USD 300 million in total.

The Company is well positioned for further growth on the NCS. At the end of 2018 the Company had a significantly larger, stronger and more diversified production portfolio than at the beginning of the year. The Board is aware of the risks associated with its operations and changing market conditions and is prioritizing capital discipline. The Board will continuously consider risk mitigating factors in all aspects of the Company's operations.

1. The financial statements

(All figures in brackets refer to 2017).

The Company prepares its financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and the Norwegian Accounting Act. The Company implemented the new standards IFRS 9 Financial Instruments and IFRS 15 Revenues from Contracts with customers as of 1 January 2018. The new standards did not have any significant impact on the Company's financial statements. The new standard IFRS 16 Leases will be implemented effective 1 January 2019. Impacts from the implementation has been described in Note 2 Accounting Policies. Other than these changes the accounting principles are in all material respect the same as in the financial statements for 2017.

The acquisition of the working interests in the Draugen and Gjøa licences as part of the Shell Transaction has been determined to constitute a business combination and has been accounted for using the acquisition method of accounting as required by IFRS 3. The economic date of the transaction, which will be used for tax purposes, is 1 January 2018. The acquisition date for accounting purposes (transfer of control) has been determined to be 30 November 2018 and the Shell Transaction has as such impacted the statement of comprehensive income from December.

A preliminary purchase price allocation (PPA) has been performed and all identified assets and liabilities have been measured at their acquisition date fair values in accordance with the requirements of IFRS 3. The agreed purchase price was NOK 4 520 million. Adjusted for interim period adjustments and working capital, the total cash consideration is estimated to NOK 2 930 million. The Shell Transaction has had a significant impact on all aspects of the Company's financial statements for 2018.

2. Statement of comprehensive income

The Company's total operating income amounted to NOK 353,5 (43.4) million. From the date of transfer of control (30 November 2018) the Draugen and Gjøa licences contributed with operating income of NOK 124 million. An amount of NOK 115 million has been recognized as income related a contract breach compensation on the YME project. See note 26 to the Financial statements for further description. The Company has entered into hedging instruments to mitigate the risk relating to changes in the oil price and a gain of NOK 37.2 (0.0) million is included in other operating income.

Net financial expenses amounted to NOK 349.0 (24.7) million and were heavily impacted by interests on bond loans amounting to NOK 157.1 (10.1) million and foreign exchange rate losses, mainly related to the two bonds denominated in USD, of NOK 156.2 (8.2) million. The Company has also entered into hedging instruments to mitigate the risk relating to changes in exchange rates.

Loss before income tax amounted to NOK 268.0 (-80.5) million and net loss was NOK 148.6 (-11.7) million. The Draugen and Gjøa licences contributed with a profit before tax of NOK 81 million.

3. Statement of financial position

Total assets amounted to NOK 10,054.1 (1,833.1) million and increased significantly due to the acquisition of the interests in the Draugen and Gjøa licences, as well as investments in the YND project. The fair values of the Draugen and Gjøa licences were estimated to be NOK 3,141.9 million in the preliminary purchase price allocation (PPA) and have been included in the net book value of oil and gas properties in the statement of financial position. As part of the Shell Transaction it was agreed that Shell (the seller) should cover 80% of the costs of decommissioning the acquired oilfields limited to an agreed cap. The fair value of the receivable towards the seller was estimated to NOK 2,746.0 million. In addition, net working capital in the transaction amounted to NOK 340.2 million.

The fair value of the asset retirement obligation was estimated to be NOK 3,512.2 million and has been included in provisions in the statement of financial position. The deferred tax liability relating to the transaction has been estimated to NOK 456.1 million and the tax payable on taxable profits for the interim period from 1 January 2018 up until closing of the Shell Transaction on 30 November 2018 has been estimated to NOK 794.1 million. The PPA resulted in an ordinary goodwill of NOK 166.6 million and a technical goodwill of NOK 1,297.7 million. The ordinary goodwill consists largely of the synergies of acquiring the Draugen organization, which could provide a platform for generating future growth on the NCS. The technical goodwill arises as a consequence of the requirement to recognize deferred tax for the differences between the assigned fair values and the tax basis of assets acquired and liabilities assumed. None of the goodwill recognized will be deductible for income tax purposes.

The Shell Transaction and the day-to-day operations of the Company are financed by operating income, cash from equity and bond loans. The Company has issued two bonds listed on the Oslo Stock Exchange, amounting to a total of USD 300 million. OKEA 01, with a nominal amount of USD 120 million, was issued in November 2017 and is fully repayable on 16 November 2020. OKEA 02, with a nominal amount of USD 180 million was issued in June 2018 and is fully repayable on 28 June 2023. The amortized cost of the bond amounts to NOK 2,528.6 (963.3) million at the balance sheet date.

At the balance sheet date, the Company has available cash of NOK 388.9 (27.5) million and restricted cash of NOK 48.3 (907.8) million. The restricted cash is mainly relating to deposits to an escrow account following covenants in the bond loans.

At the balance sheet date, the Company has a total of 8 220 450 issued shares consisting of ordinary shares and A ordinary shares. Each ordinary share has one vote at general meetings. The A ordinary shares do not have voting rights. Otherwise, the ordinary shares and the A ordinary shares have equal rights, including equal rights to dividend and other distributions from the Company. The A ordinary shares shall be converted into ordinary shares at predetermined events. A total of 935 016 outstanding warrants exist at 31 December 2018.

The share capital amounted to NOK 8.2 (24.7) million and total equity amounted to NOK 1,463.4 (473.8) million. Total liabilities amounted to NOK 8,590.7 (1,359.3) million.

4. Statement of cash flows

Cash flows from operating activities was NOK 235.4 (-37.3) million. Net cash flows used in investing activities was NOK 2,257.0 (1,031.9) million, which included NOK 2,725.2 million relating to net cash transferred in the Shell Transaction. Net cash flows from financing activities amounted to NOK 2,386.7 (1,060.9) million, which included net proceed from issuance of bond loans of NOK 1,399.1 (961.4) million and net proceeds from issuance of new shares of NOK 1,133.4 (65.5) million. The difference between cash flows from operating activities of NOK 235.4 (-37.3) million and profit from operating activities of NOK 81.0 (-55.8) million is mainly due to depreciation, change in working capital and tax refund received.

5. Going concern and liquidity

Pursuant to §3-3 of the Norwegian Accounting Act the Board confirms that the conditions for continued operation as a going concern are present for the Company and the annual financial statement for 2018 have been prepared under this presumption.

The assumption is based on the fact that the Company has, through the Shell Transaction, built strong organizational capabilities as an independent operator on the NCS as well as increased production to over 20,000 boed at the end of 2018, attributes that will form a solid basis for the planned IPO. Cash flow from operations and available liquidity is expected to be sufficient to finance the Company's commitments in 2019.

Covenants under the latest bond issue OKEA02 are sensitive to the USD/NOK exchange rate and requires the Company to effectuate a share capital increase of no less than USD 5.3 million by end of December 2018. The Company has entered into a waiver agreement with Nordic Trustee, representing the bondholders, to defer the obligation until 30 June 2019 and an amount of USD 5.3 million has been placed in escrow. Furthermore, the Company has in 2019 placed an additional USD 10.9 million in escrow, which for purposes of calculation of one of the financial covenants in the Company's bonds will reduce total debt. The total amount in escrow after this payment in 2019 is USD 16.2 million. During 2018 and at 31 December 2018 the Company was in compliance with the covenants under the bond agreements.

In the Board's view, the annual accounts give a true and fair view of the Company's assets and liabilities, financial position and results. The Board is not aware of any factors that materially affect the assessment of the Company's financial position as of 31 December 2018, or the result for 2018, other than those presented in the Board of Directors' Report or that otherwise follow from the financial statements.

6. Allocation of loss for the year

Net loss for 2018 amounted to NOK 148.6 million. The Board proposes the following allocation:

Transferred to accumulated loss NOK 148.6 million.

7. Risks related to the Company's business and industry

The Company's business, results of operations, value of assets, reserves, cash flows, financial condition and access to capital depend significantly upon, and may be adversely affected by, operational as well as financial risk factors, primarily the level of oil and gas prices, which are highly volatile. The Company may from time to time enter into derivative contracts in order to effectively receive fixed prices on portions of its oil and gas production. Reserves and contingent resources are by their nature uncertain in respect of the inferred volume range and are also highly sensitive to oil and gas prices. The development of the oil and gas fields in which the Company has an ownership interest, is associated with technical risk and uncertainty with regards to timing of additional production from new development activities.

Financial risk factors

The Company is exposed to a variety of financial risk factors, including market risk, which primarily relates to oil and gas price risk as discussed above, but also to interest rate risk and foreign exchange rate risk. The Company will continue to mitigate these risks by executing its hedging policies. Other financial risk factors relate to credit risk (the risk that counterparties default on their payment obligations to the Company), and liquidity risk (the risk that the Company is unable to meet its payment obligations as they fall due).

The Company's functional currency is NOK. Revenues for oil sales are in USD and in GBP and EUR for gas, while operational and development costs are mainly in NOK. The Company holds its bonds in USD and therefore has entered into derivative contracts in order to mitigate foreign currency risk.

The Company's exposure to interest rate risk is related to the USD 180 million bond, which is subject to floating interest rates. The Company has no other interest-bearing borrowings with floating interest rate conditions but has a USD 120 million fixed interest rate bond.

The Company's exposure to credit risk is considered limited as sales transactions are only with solid customers and derivative contracts are only entered into with reputable counterparties.

The Company's approach to managing liquidity risk is to ensure that sufficient liquidity is secured through detailed cash flow forecasting to meet financial liabilities as they fall due, under normal as well as extraordinary circumstances, without incurring unacceptable losses or risking damage to the Company's reputation.

Financial risk is managed by the finance department under policies approved by the Board. The overall risk management policy seeks to minimize the potential adverse effects on financial performance from unpredictable fluctuations in financial and commodity markets. The use of financial instruments, such as forward contracts and interest rate- and currency swaps, are regularly evaluated, and entered into, in order to hedge portions of such risk exposures.

8. Health, safety and environment

2018 was characterized by a high level of activity including the transfer of operatorship for the Draugen field under the Shell Transaction which included the transfer of all offshore operations from Shell to the Company.

Prior to the transfer of operatorship, the Company developed a number of new internal systems and processes to accommodate the offshore and onshore operations related to the Draugen Field. This included implementation of management systems, work processes and IT solutions together with applications needed to support and secure safe operations on the Draugen platform. All of this was achieved in accordance with the regulatory authorities' requirements.

The Petroleum Safety Authority (PSA), and Shell (as seller of Draugen), monitored these processes rigorously, to ensure successful operatorship transfer. In February 2019, the PSA published the conclusions of their audit of the Draugen transfer process. The PSA report identified no non-conformances and did not make any specified suggestions for improvement. The transfer and cut-over process were completed as planned, achieving all key milestones for the execution of this project. The Board recognises the Company's achievement as the result of a well-prepared and well-executed integration project.

The Company had no serious incidents in the company's activities and operations in 2018 or any recordable injuries (includes lost time injury, medical treatment case and restricted work case/temporary transferral to other jobs). The Company promotes a healthy working environment for all employees, vendors and contractors involved in its activities. The Company has established and implemented a Working Environment Committee for the new integrated organisation, covering all locations, offshore and onshore. The total sickness absence was 1.3 per cent.

The Board takes the Company's environmental responsibilities seriously and ensures that management of the Company continues to reduce the environmental impact from the Company's activities, both in field development projects and in the Draugen operations. Efforts are ongoing to find solutions and measures to reduce emissions to air and discharges to sea, as well as utilising chemicals that are as environment friendly as possible. Activities with the potential of reducing the environmental footprint have been initiated and will actively be further developed in 2019. One of these activities is to evaluate the potential possibilities to supply the Draugen platform with electrical power from shore.

Even though the offshore production activities are well prepared and operated, there is still a certain risk of an acute oil spill being discharged to sea, which in worst case may result in pollution to the external environment. To be prepared if such an undesired event should occur, the Company has in 2018 become a member of NOFO, the Norwegian Clean Seas Association for oil companies. The Company has also built a competent and well-trained emergency preparedness organisation to manage and respond to any serious incident, and as part of this, the Company in 2018 also became a member of OFFB, Operators' organisation for Emergency preparedness.

A primary goal for the Company is to establish a culture of openness with no barriers related to all aspects of health, safety and environment, both within the Company and when working with stakeholders to secure a safe working environment, a high level of quality in our operations and minimal impact on the environment. To establish such a common culture in the Company needs focus, and the post transition plan identifies culture as one of the main focus areas. The Company's values are underpinning the Company culture which is characterized by "**O**pen, **K**een, **E**fficient and **A**gile". The Company will introduce a "people survey" during 2019 to measure the working environment and employee engagement, and to identify actions for further improvements.

9. Organization, Equal opportunities

The Company had 182 employees at year end of which 42 employees (23 %) are female. The Company endeavors to maintain a working environment with equal opportunities for all based on qualifications, irrespective of gender, ethnicity, sexual orientation or disability.

At present the executive management team consists of one woman and seven men, and the Board also consists of one woman and seven men. Actions have been taken to increase the number of women on the Board, both as Company representatives and as representatives for the employees. The election of employee representatives at the Board is ongoing, and there are female nominated candidates from all election areas. In addition to the internal focus on increasing gender diversity, it is also a part of the preparations to convert to ASA (allmennaksjeselskap), as required for the planned listing of the Company on the Oslo Stock Exchange.

The Company has built a strong organization through the transaction with Shell, capable of growing a profitable business in the years to come and has recently been approved as a "lærebedrift", meaning the Company is approved to take in apprentices for their certificate of apprenticeship through working at Draugen. This is considered as a valuable contribution to the society and the Company will take in apprentices to start at Draugen in the autumn 2019. In addition, the Company will focus on internal development opportunities through the flexible use of resources across operations and new projects.

10. Corporate social responsibility (CSR), ethics and anti-corruption

Management systems and procedures

The Company has implemented core management systems, documentation and well-defined procedures establishing HSSE, environmental awareness and lawful business practices as a key value in all operations of the Company, hereunder in all dealings with customers, suppliers, business partners and stakeholders. This includes monitoring of adherence to our guidelines and procedures for governing anti-corruption, fair and transparent business practices and other issues ensuring that the Company in all operations operate to the highest level of business ethics and integrity.

Environmental awareness and management
The Company works continuously across all operations to reduce any negative environmental impact of our activities, hereunder related to energy consumptions and CO_2 emissions. The Company complies with all applicable laws and regulations for environmental management.

Key Performance Indicators	OKEA = Draugen in December 2018
CO_2 emissions (tonnes)	16 607
CO_2 intensity (tonn CO_2/m^3 o.e produced)	0,137
Gas flaring (Sm^3)	202 925
Produced water oil concentration (ppm)	19
Produced water reinjection %	40 %

Societal Contribution and community participation

The Company strives to develop and maintain a good relationship with and to contribute to strengthening the local communities where the Company operates. The Company is currently supporting the Opera in Kristiansund, as well as the handball tournament "OKEA Cup" in Kristiansund and continuously evaluates other opportunities for participation in community activities.

Business ethics and integrity
The Company has implemented rules and procedures to ensure that all operations are conducted in adherence with high business ethics and integrity. The Company also mandates that all our suppliers shall adhere to such standards and requirements.

Adherence to these procedures and guidelines is a prerequisite for maintaining a good standing and trust in the market, ensuring that the Company's conduct complies with relevant legislation and our core values both internally and externally. This includes rules and regulations for the avoidance of conflicts of interests, combating corruption and improper payments/financial inducements, as well as safeguards for ensuring that human rights, equality and integrity are respected in all operations in which the Company is involved.

11. Corporate governance
The Company seeks to create sustained shareholder value and pays due respect to the Company's various stakeholders. Further, the Company is committed to maintaining a high standard of corporate governance and has established guidelines that define the roles and relationship between the Board and the executive management of the Company.

The principles and implementation of corporate governance are subject to annual reviews and discussions by the Company's Board.

The statement on corporate governance 2018 is provided in a separate section of the annual report.

12. Reporting of payments to governments
The Company has prepared a report of government payments in accordance with the Norwegian Accounting Act §3-3d and the Norwegian Securities Trading Act §5-5a. These regulations states that companies engaged in activities within the extractive industries shall on an annual basis prepare and publish a report containing information about their payments to governments at country and project level. The report is provided in a separate section of the annual report.

13. Future outlook

With the Shell Transaction completed, the Company has a substantially diversified asset portfolio, has a daily production of more than 20,000 boepd at the end of 2018, and has built a strong operational organization capable of growing a profitable business in the years to come. The Board believes that this provides a solid foundation for continued growth and value creation. The Board has full confidence in the Company's management team and their ability to deliver an ambitious growth strategy and looks forward to continued success.

The Company is contemplating a listing at Oslo Bors. This would provide additional funding, enabling further organic and in-organic growth for the Company.

Directors' Report 2018, Trondheim, 20 March 2019

Chaiwat Kovavisarach
Chairman of the Board

Henrik Schröder
Deputy Chairman of the Board

Arild Christian Selvig
Board Member

Paul Anthony Murray
Board Member

Kaare Gisvold
Board Member

Knud Hans Nørve
Board Member

Michael William Fischer
Board Member

Prisana Praharnkhasuk
Board Member

Erik Haugane
CEO

STATEMENT ON CORPORATE GOVERNANCE 2018

1. Governance principles and objectives

OKEA AS («OKEA» or the «Company») seeks to create sustained shareholder value and to pay due respect to the Company's various stakeholders. These include its shareholders, employees, business partners, society in general, and authorities. OKEA is committed to maintaining a high standard of corporate governance and has established guidelines that define the roles and relationship between the Company`s Board of Directors (or the "Board") and the executive management of the Company.

OKEA is a limited liability company incorporated and registered in Norway and subject to Norwegian law. The Company has two bonds listed on the Oslo Stock Exchange and is considering a listing of its shares during 2019. With its two bonds listed on Oslo Stock Exchange the Company is required to report on its corporate governance as required by the Norwegian Accounting Act section 3-3 b, 3rd subsection.

OKEA is a limited liability company that is not directly subject to the Norwegian Code of Practice for Corporate Governance (the "Code"), which is available on www.nues.no. However, the Company's objective is to act in accordance with the Code where it is relevant considering its owner structure and future ambitions. Adherence to the Code is based on the "comply or explain" principle, which means that a company endeavours to comply with all the recommendations of the Code or explain why it has chosen an alternative approach to specific recommendations. Adherence to the Code will also ensure that OKEA complies with the regulatory requirements for its two listed bonds.

The principles and implementation of corporate governance are subject to annual reviews and discussions by the Board. This report discusses OKEA's main corporate governance policies and practices and how OKEA has complied with the Code in the preceding year.

OKEA plans to convert the Company into a public limited liability company (ASA) during 2019. As a part of that process, the Board will institute an updated Corporate Governance Policy and a set of Corporate Governance instructions and guidelines that addresses the framework of guidelines and principles regulating the interaction between the Company's shareholders, the Board, the Company`s Chief Executive Officer (the "CEO") and the Company's executive management team. The Board is responsible for adhering to sound corporate governance standards, and follow up the Company's objectives and strategies.

OKEA complies with the current edition of the Code, unless otherwise specifically stated. The following statement on corporate governance 2018 is organised in line with the structure of the Norwegian Code of Practice for Corporate Governance, most recently revised 17 October 2018.

2. Business

OKEA is a pure Norwegian development and production company, which shall contribute to the value creation on the Norwegian Continental Shelf ("NCS") with cost effective development and operation systems.

The Company's operations comply with the business objective set forth in its articles of association, which reads as follows:

"The objective of the Company is petroleum activities on the Norwegian Continental Shelf, including development and production of oil and gas, and all other business activities as are associated with the above objectives, and share subscription or participation by other means in such operations alone or in cooperation with others".

By engaging in the activities described in the Company's business objective, the Company's overall vision is to be the leading company on the NCS when it comes to safe and cost-effective field developments and operation of small fields with standalone facilities.

The Board has defined clear goals, strategies and risk profile for the Company's business activities, to create value for its shareholders and ensure that its resources are utilised in an efficient and responsible manner to the benefit of all its stakeholders.

The Company has in 2018 pursued the following main strategies to reach its overall objective:

- Focus our activities only within the area of subsurface, development and production in the industry value chain,
- Identify undeveloped discoveries with a reasonable commercial potential, where OKEA shall contribute and facilitate cost-effective field development solutions as partner or operator,
- Acquire a participating interest in discoveries by:
    - Farm in to existing production licences without a firm Plan for Development and Operation (PDO)
    - Participate in license rounds,
- Coordination of discoveries and business incentives, to realize value through high degree of standardization, optimal production sequences and good field development solutions,
- Utilise the competence in the offshore service industry and introduce new business models with the service industry in order to better harmonize incentives,
- Use risk-cost-benefit evaluations in all phases of our business activities, and
- Maintain a small and competent organization with direct management engagement and involvement in our projects.

3. Equity and dividends

Capital adequacy

As of 31 December 2018, OKEA's total equity was NOK 1 463.4 million. The Board considers the capital structure to be satisfactory and in accordance with OKEA's risk profile, thus enabling the Company to pursue its goals and strategy. The Board continuously monitors the Company's capital situation and will immediately take adequate steps should it be apparent at any time that the Company's equity or liquidity is less than adequate.

Dividends and dividend policy

Dividend payments will depend on the performance and profitability of the Company, which will be reviewed from time to time by the Board.

Currently, restrictions in OKEA's outstanding debt prevent the Company from paying dividends. OKEA's current focus is on growing its business and surplus cash will most likely be used to fund ongoing and future projects. Consequently, the Company does not expect to pay dividends in the foreseeable future. No dividends have been distributed to the shareholders of the Company from its incorporation in 2015 till today.

Board authorisations

At an extraordinary General Meeting on 2 October 2018, two authorisations were granted to the Board of Directors:

- Power of attorney to increase the share capital with up to NOK 475,000 for general purposes, including set-off of debt or a right to assume special obligations on the Company's behalf. The authorisation does not include a resolution of merger.
- Power of attorney to increase the share capital with up to NOK 165,000, to be utilized in connection with the Company's employee incentive program.

Both authorisations are valid until the ordinary General Meeting in 2019, and no later than 30 June 2019. There was a separate vote on both of the authorisations. For supplementary information, reference is made to the minutes of the extraordinary General Meeting held on 2 October 2018, available from www.okea.no and www.newsweb.no.

4. Equal treatment of shareholders and transactions with close associates

Basic principles

All shareholders in OKEA have duly signed a Shareholder's Agreement of 20 November 2018 that clearly defines the treatment of shareholders.

OKEA has two classes of shares, *ordinary shares* and *A ordinary shares*. As of 31 December 2018, the Company's share capital was NOK 8,220,450 divided on 7,319,389 ordinary shares and 901,061 A ordinary shares.

Each ordinary share has one vote at General Meetings. The A ordinary shares do not have voting rights. Otherwise, the ordinary shares and the A ordinary shares have equal rights, including equal rights to dividend and other distributions.

Approval of agreements with shareholders and close associates

Any agreements between the Company and any of the shareholders or other close associates shall be made in writing and entered into on arm's length terms and will be approved by the General Meeting in accordance with the Norwegian Limited Liability Companies Act section 3-8, if applicable.

Pursuant to the Shareholder's Agreement of 20 November 2018 the Board may resolve to subject any related party agreement to a review of its commercial terms and may resolve to revise the related party agreement accordingly if the review reveals that the terms are not at arm's length.

5. Freely negotiable shares

Transfer of shares by a shareholder is subject to consent of the Board, such consent not to be unreasonable withheld. Further, the consent from the Board is subject to the transferee becoming a party to the Company's current Shareholder's Agreement of 20 November 2018 (by a declaration of adherence from the transferee).

The Company's shares are registered with the Verdipapirsentralen.

6. General meetings

The General Meeting of shareholders is the Company's highest decision-making body. The General Meeting is an effective forum for communication between the shareholders and the Board and OKEA encourage shareholders to participate in the General Meetings.

The annual General Meeting shall be held at the latest 30 June each year, according to the Norwegian Liability Companies Act. Extraordinary General Meetings can be called by the Board of Directors at any time, or by shareholders representing at least 1/10 of share capital.

Resolutions of the General Meeting shall be by simple majority, unless a qualified majority is required by law. In order for a quorum to be present or represented at any General Meeting, the majority shareholder and the strategic shareholder (as defined in the Company's Shareholder's Agreement of 20 November 2018) must be present or represented.

The following decisions require the approval of the majority shareholder, the strategic shareholder and a majority of the shareholder's shares represented at the General Meeting:

- Decisions related to a merger and/or demerger of the Company
- Reduction of the share capital, unless the reduction is done to reduce the par value of the shares and does not include a distribution or if the reduction is carried out following an exit, and all shareholders are treated equally.

The Board proposes the agenda for the annual General Meeting. The main agenda items are determined by the requirements of the Norwegian Liability Companies Act.

The Company's General Meetings are normally chaired by the Chairman of the Board, or a person appointed by the Chairman of the Board. If the Chairman of the Board is personally conflicted in respect of any matters another person will be appointed to chair the meeting.

7. Nomination committee

The Company has not established a nomination committee pursuant to the Code due its shareholder structure. Directors are nominated by the major shareholders pursuant to regulations in the Company's Shareholder's Agreement of 20 November 2018 and elected by the General Meeting.

Members of the Company's management shall not serve as Directors.

8. The Board of Directors; Composition and independence

In accordance with the Company’s articles of association, the Board shall consist of three to eleven Directors. The Directors and the Chairman are elected by the General Meeting for a term of two years. Members of the Board of Directors may be re-elected.

With effect from 1 January 2019, the Board consisted of eight members, whereof one woman. All pre-existing members were re-elected and a new member Prisana Praharnkhasuk was elected at the extraordinary General Meeting on 10 December 2018.

The composition of the Board is based on broad representation of the Company’s shareholders, as well as the Company’s need for competence, capacity and balanced decisions.

All board members are considered as independent in relation to the Company’s day-to-day management, and in relation to important business associates. Three of the board members are considered independent of the Company’s principal shareholders. Members of the Board of Directors are encouraged to own shares in the Company.

Members of the BoD	Position	Board member since	Up for election	Participation in Board meetings 2018	# of shares in the company
Chaiwat Kovavisarach	Chairman	01.11.2018 (member), 10.12.2019 (Chairman)	2020	1 of 21*	n/a
Henrik Schröder	Deputy Chairman	30.09.2015 (Chairman), 10.12.2018 (Deputy Chairman)	2020	21 of 21	n/a
Arild Christian Selvig	Board member	17.04.2018	2020	16 of 21	1 296 (0.01577%)
Paul Antony Murray	Board member	30.09.2015	2020	20 of 21	n/a
Kaare Moursund Gisvold	Board member	14.02.2018	2020	19 of 21	14 592 (0.17751%), through Uniqum AS
Knud Hans Nørve	Board member	17.04.2018	2020	16 of 21	2 592 (0.03153%)
Michael William Fischer	Board member	01.11.2018	2020	1 of 21*	n/a
Prisana Praharnkhasuk	Board member	01.01.2019	2020	n/a	n/a

*These members joined the Board in December 2018

9. The work of the Board

The Board of Directors is responsible for the over-all management of the Company and shall supervise the Company’s day-to-day management and the Company’s activities in general.

The Board has prepared instructions for the Chairman to allocate duties and responsibilities between the CEO and the Chairman. The instructions are based on applicable laws and well-established practices. A process has been initiated to prepare new instructions for the Board of Directors related to the conversion of OKEA into a public limited liability company (ASA), this process is expected to be completed during the first half of 2019.

The Board of Directors is responsible for determining the Company’s overall goals and strategic direction, principles, risk management, and financial reporting. The Board of Directors is also responsible for ensuring that the Company has competent management with a clear internal distribution of responsibilities, as well as doing an ongoing performance evaluation of the CEO. Guidelines for the CEO, including clarifying duties, authorities and responsibilities, have been prepared.

In accordance with the Company's guidelines, members of the Board of Directors and executive management are expected to notify the Board if they have any material direct or indirect interest in any transaction entered into by the Company.

Board committees
OKEA has not established any board committees. The Company has as of 2018 not established an audit committee in accordance with Oslo Stock Exchange's Continuing obligations for Bonds section 2.5 2nd subsection.

Evaluation of the Board
The Board evaluates its performance and expertise annually.

10. Risk management and internal control

The Board shall ensure that the Company has sound internal control and systems for risk management that are appropriate in relation to the extent and nature of the Company's activities. The internal control and the systems shall also encompass the Company's corporate values and ethical guidelines. OKEA applies a risk-based management approach in planning, execution and monitoring activities as reflected throughout OKEA's management system.

Risk management is of paramount importance for OKEA's ability to achieve its goals and deliverables. The following governing principles apply for risk management in OKEA:

- Uncertainty is handled through the continuous risk management processes in top management, as well as in departments and projects,
- Risk management shall be reflected throughout the Company management system framework,
- Risk management shall be an important foundation for all major decisions,
- An updated enterprise risk picture shall be maintained,
- Risk shall be managed at the lowest possible level in the organisation,
- Risk management shall address both threats and opportunities, and
- Risk management in OKEA shall be transparent, inclusive and dynamic.

OKEA's overall governing principles for risk management are incorporated in OKEA's Management System Manual. OKEA's risk management is further integrated in several of the key processes in OKEA's management system, which contributes to ensure that strategies and corresponding activities are risk based prioritised. OKEA's risk management shall be in accordance with the Norwegian regulations relating to health, safety and the environment in the petroleum activities and at certain onshore facilities (the Framework Regulations) section 11.

The CEO is the overall responsible for the risk management system. Senior Vice President Business Performance together with Vice President QHSE has the operational responsibility for risk management and provides the Board with a status of the internal control, most important risks and mitigation measures on a quarterly basis.

The Internal Control over Financial Reporting (ICFR) system shall ensure reliable and timely financial information.

The Company has established processes and controls for financial reporting, which are appropriate for a company of OKEA's size and complexity. The procedures enable:

- Appropriate identification of risks,
- Sufficient segregation of duties,
- Provision of relevant, timely and reliable financial reporting that provides a fair view of the Company's business,

- Prevention of manipulation/fraud of reported figures, and
- Compliance with relevant requirements of IFRS.

OKEA makes use of an external professional accounting firm to support its internal and external financial reporting. Meetings are held regularly, at least twice a month, to ensure alignment and proper assessment of new risks and issues, update of status of operations and projects. Other external professionals are used to provide additional capability if required.

The Company has implemented a combination of manual and automatic controls. The Financial Reporting process is continuously improved and adapted to the Company's growth and complexity.

11. Remuneration of the Board of Directors

For 2018 the Board renumeration was set as NOK 200 000 for members and NOK 350 000 for the Chairman of the Board, as decided by the General Meeting. Total renumeration to the Board of Directors for 2018 was NOK 800 000.

12. Remuneration of the executive management

Combined renumeration for the executive management was NOK 15,7 million for 2018, with executive management defined as the current CEO/Senior Vice President level in the organization.

13. Information and communications

The Board places great emphasis on open, honest and timely dialogue with shareholders and other participants of the capital markets to build trust and credibility, and to support access to capital and a fair valuation of the Company's shares and listed debt. The Board seeks to present the information factually and accurately. All information is published in English, which is OKEA's corporate language.

Senior Vice President Finance & Investor Relations and the Chairman are responsible for investor and shareholder relations.

The primary channel for communication is OKEA's web page, www.okea.no. Information directly to shareholders is primarily given by electronical communication (e-mail).

OKEA provides interim and annual financial statements and issues other notices when appropriate, in accordance with the Oslo Stock Exchange's Continuous Rules for Bond and quarterly financial statements as per regulated under the Company's bond agreements. The information is made available on the Company's website and at www.newsweb.no.

14. Takeovers

Due to the structure of the Company and the Shareholder's Agreement of 20 November 2018, there are no defence mechanisms against take-over bids in the Company's articles of association, nor have other measures been implemented to specifically hinder acquisitions of shares in the Company.

The Board of Directors has not as the end of December 2018 established written guiding principles for how it will act in the event of a take-over bid.

In the event of a takeover situation, the Board of Directors and the Company's executive management each have an individual responsibility to ensure that the Company's shareholders are treated equally, and that the Company's activities are not unnecessarily interrupted. The Board has a special responsibility to ensure that the shareholders have sufficient information and time to form an informed view on the offer.

15. Auditor

The Company's external auditor is PwC.

The Board of Directors requires the Company's auditor to annually present a review of the Company's internal control procedures, including identified weaknesses and proposals for improvement, as well as the main features of the plan for the audit of the Company.

Furthermore, the Board of Directors requires the auditor to participate in meetings of the Board of Directors that deal with the annual accounts. The Board of Directors will meet with the auditor annually without representatives of company management being present.

The remuneration to the auditor is approved by the General Meeting. The Board of Directors will report to the General Meeting details of fees for audit work and any fees for other specific assignments.

As of end 2018 no separate guidelines have been prepared for use of the auditor for services other than auditing.

REPORTING ON PAYMENTS TO GOVERNMENTS

This report is prepared in accordance with the Norwegian Accounting Act Section § 3-3 d and the Securities Trading Act § 5-5 a. It states that companies engaged in activities within the extractive industries shall annually prepare and publish a report containing information about their payments to governments at country and project level. The Ministry of Finance has issued a regulation (F20.12.2013 nr 1682) stipulating that the reporting obligation only apply to reporting entities above a certain size and to payments above certain threshold amounts. In addition, the regulation stipulates that the report shall include other information than payments to governments, and it provides more detailed rules applicable to definitions, publication and group reporting.

The management of OKEA has applied judgment in the interpretation of the wording in the regulation regarding the specific type of payment to be included in the report, and on what level it should be reported. When payments are required to be reported on a project-by-project basis, it is reported on a field-by-field basis. As per management's interpretation of the regulations, only gross amounts on operated licences are reported, and only for the period when OKEA formally has been acting as operator. As all payments within the licences performed by non-operators will normally be cash calls transferred to the operator these payments are not considered to be payments to the government. All of OKEA's activities within the extractive industries are located on the Norwegian Continental Shelf and all of the reported payments below is to the Norwegian government.

The payments to be reported are defined in the regulation (F20.12.2013 nr 1682) §3. The below sections summarize the payments that OKEA has made:

Area fee

OKEA has paid area fee for the following licences in 2018:

Licences	***Area fee paid in 2018 (NOK `000)***
Grevling (PL038 D)	9 570
PL158	918
Draugen*	15 209

* The area fee for 2019 for Draugen was paid by A/S Norske Shell (previous operator on Draugen) in December 2018 on behalf of OKEA AS.

Income tax – Norway

Income taxes are calculated for OKEA AS. The company has reported tax losses over the last few years and no income tax payments have been made. OKEA has received tax refunds on exploration expenses.

Other information

In accordance with the regulation (F20.12.2013 nr 1682) OKEA is also required to report on investments, operating income, production volumes and purchases of goods and services. All of the reported information is relating to OKEAs activities within the extractive industries on the Norwegian Continental Shelf:

- Total net investments amounted to NOK 2,257.0 million as specified in the statement of cash flows. This also includes cash paid relating to the acquisition of interests in Draugen and Gjøa from Shell
- Revenues from crude oil and gas sales amounted to NOK 149.8 million as reported in the statement of comprehensive income
- OKEA's net production in 2018 was 2,412 boepd as reported in the Board of Directors report
- Reference is made to the statement of comprehensive income and related disclosures notes for information about purchase of goods and services

Financial Statements 2018

FINANCIAL STATEMENTS WITH NOTES

Overview of the financial statements with notes

Statement of Comprehensive Income

Amounts in NOK `000	Note	2018	2017
Revenues from crude oil and gas sales	20	149 761	38 429
YME compensation contract breach	26	115 000	-
Other operating income	26	88 747	5 007
Total operating income		**353 508**	**43 435**
Production expenses		-18 347	-7 654
Exploration expenses	8	-74 782	-28 710
Depreciation, depletion and amortization	10	-57 297	-18 025
Employee benefit expenses	4	-34 183	-11 707
Other operating expenses	5	-87 899	-33 128
Total operating expenses		**-272 509**	**-99 223**
Profit / loss (-) from operating activities		**80 999**	**-55 788**
Finance income	6	17 300	2 392
Finance costs	6	-366 263	-27 098
Net financial items		**-348 963**	**-24 706**
Profit / loss (-) before income tax		**-267 964**	**-80 494**
Income taxes	7	119 342	68 780
Net profit / loss (-)		**-148 622**	**-11 714**
Other comprehensive income:			
Total other comprehensive income		**-**	**-**
Total comprehensive income / loss (-)		**-148 622**	**-11 714**
Earnings per share (NOK per share)			
- Basic	29	-39,25	-31,85
- Diluted	29	-39,25	-31,85

Statement of Financial Position

Amounts in NOK `000	Note	**31.12.2018**	**31.12.2017**
ASSETS			
Non-current assets			
Deferred tax assets	7	-	85 091
Goodwill	9	1 472 428	8 057
Exploration and evaluation assets	9	6 324	5 752
Oil and gas properties	10	4 022 321	676 378
Buildings	10	92 501	-
Furniture, fixtures and office equipment	10	3 407	217
Other non-current assets	25, 28	2 754 237	-
Total non-current assets		**8 351 218**	**775 495**
Current assets			
Trade and other receivables	11, 22	944 397	120 207
Spareparts, equipment and inventory	27	315 500	-
Restricted cash	12, 16, 22	48 327	907 799
Cash and cash equivalents	12, 22	394 670	29 609
Total current assets		**1 702 895**	**1 057 615**
TOTAL ASSETS		**10 054 113**	**1 833 110**

Statement of Financial Position

Amounts in NOK `000	Note	**31.12.2018**	**31.12.2017**
EQUITY AND LIABILITIES			
Equity			
Share capital	13	8 220	24 738
Share premium		1 624 104	470 755
Other paid in capital		1 361	-
Accumulated loss		-170 289	-21 667
Total equity		**1 463 396**	**473 827**
Non-current liabilities			
Provisions	14	3 859 308	319 668
Deferred tax liabilities	7	886 782	-
Interest-bearing loans and borrowings	16, 22	2 528 589	963 312
Total non-current liabilities		**7 274 680**	**1 282 979**
Current liabilities			
Trade and other payables	15, 22	1 145 923	66 013
Income tax payable	7	155 722	-
Shareholder loan	17, 22	1 141	1 141
Public dues payable		9 840	3 596
Provisions, current	14	3 410	5 554
Total current liabilities		**1 316 036**	**76 304**
Total liabilities		**8 590 716**	**1 359 283**
TOTAL EQUITY AND LIABILITIES		**10 054 113**	**1 833 110**

Trondheim, 20 March 2019

Chaiwat Kovavisarach
Chairman of the Board

Henrik Schröder
Deputy Chairman of the Board

Arild Christian Selvig
Board Member

Paul Anthony Murray
Board Member

Kaare Gisvold
Board Member

Knud Hans Nørve
Board Member

Michael William Fischer
Board Member

Prisana Praharnkhasuk
Board Member

Erik Haugane
CEO

Statement of Changes in Equity

Amounts in NOK `000	Note	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	13	7 348	139 620		-146 968		-
Share issues, cash	13	3 275	62 225				65 500
Share issues, conversion of debt	13	2 778	52 786				55 564
Equity at 31 December 2017		**24 738**	**470 755**	**-**	**-**	**-21 667**	**473 827**
Equity at 1 January 2018		24 738	470 755	-	-	-21 667	473 827
Net profit / loss (-) for the year						-148 622	-148 622
Capital reduction (equity restructuring)	13	-23 300	-452 590				-475 890
Share issues, conversion of debt (equity restructuring)	13	1 687	474 203				475 890
Share issues, cash	13	5 095	1 131 736				1 136 831
Share based payment	4			1 361			1 361
Equity at 31 December 2018		**8 220**	**1 624 104**	**1 361**	**-**	**-170 289**	**1 463 396**

Statement of Cash Flows

Amounts in NOK `000	Note	**2018**	**2017**
Cash flow from operating activities			
Profit / loss (-) before income tax		-267 964	-80 494
Income tax paid/received	7	20 885	3 740
Depreciation, depletion and amortization	10	57 297	18 025
Accretion ARO	14, 28	10 078	6 001
Interest expense		145 082	9 238
Change in trade and other receivables, and inventory		-591 694	-6 420
Change in trade and other payables		693 180	8 248
Change in other non-current items		168 563	4 385
Net cash flow from / used in (-) operating activities		**235 428**	**-37 278**
Cash flow from investing activities			
Investment in exploration and evaluation assets	9	-573	-999
Business combination, cash paid	25	-2 725 220	-
Investment in oil and gas properties	10	-386 526	-123 099
Investment in buildings	10	-1 001	-
Investment in furniture, fixtures and office machines	10	-3 196	-
Net investment in (-)/release of restricted cash	12	859 472	-907 799
Net cash flow from / used in (-) investing activities		**-2 257 043**	**-1 031 897**
Cash flow from financing activities			
Proceeds from intercompany borrowings	17	-	92 280
Repayment of intercompany borrowings	17	-	-58 300
Net proceeds from borrowings, bond loan	16	1 399 065	961 415
Net proceeds from borrowings, exploration loan		37 650	-
Repayment of borrowings, exploration loan		-40 000	-
Interest paid		-143 403	-
Net proceeds from share issues	13	1 133 365	65 500
Net cash flow from / used in (-) financing activities		**2 386 677**	**1 060 895**
Net increase/ decrease (-) in cash and cash equivalents		**365 062**	**-8 280**
Cash and cash equivalents at the beginning of the period		29 609	37 889
Cash and cash equivalents at the end of the period	12	**394 670**	**29 609**
Restricted cash at the end of the period	12	48 327	907 799
Restricted and unrestricted cash at the end of the period	12	**442 997**	**937 408**

Note 1. Corporate Information

OKEA AS ("OKEA" or "the Company") is a limited liability company incorporated and domiciled in Norway. Its registered office is in Trondheim, Norway.

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

On 30 November 2018, the Company completed the acquisition of a 44.56% interest in Draugen (PL093), a 12% interest in Gjøa (PL153) and the office building "Råket" in Kristiansund from A/S Norske Shell. OKEA also assumed the operatorship of the Draugen field effective from 30 November 2018. After this acquisition, the Company among others holds the following interests in licences:

- 44.56% interest in the Draugen field (PL093)
- 12% interest in the Gjøa field (PL153)
- 15% interest in the Yme field (PL316/316B)
- 0.554% interest in the Ivar Aasen field (PL338BS)
- 55% interest in the Grevling discovery (PL038D)

The financial statements of OKEA for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the Board of Directors on 20 March 2019.

Note 2. Accounting Policies

Basis of Preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and in accordance with the additional requirements following the Norwegian Accounting Act.

The financial statements have been prepared under the assumption of going concern and on a historical cost basis, with some exceptions as detailed in the accounting policies set out below.

Balance Sheet Classification

Current assets and current liabilities include items due less than a year from the balance sheet date, and items related to the operating cycle, if longer. Other assets and liabilities are classified as non-current. The current portion of non-current debt is included under current liabilities.

Interest in Oil and Gas Licences

The Company accounts for its interest in oil and gas licences based on its ownership interest in the license, i.e. by recording its share of the licences individual income, expenses, assets, liabilities and cash flows, on a line-by-line basis with similar items in the Company's financial statements.

Acquisitions of Interests in Oil and Gas Licences

Acquisitions of interests in oil and gas licences or similar joint operations where the joint operation constitutes a business, are accounted for in accordance with the principles in IFRS 3 Business Combinations. This means that the acquisition method of accounting is used to account for such acquisitions.

Identifiable assets acquired and liabilities and contingent liabilities assumed are measured initially at their fair values at the acquisition date. Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred over the fair value of the net identifiable assets acquired is recorded as goodwill. If, following careful consideration, the consideration transferred is less than the fair value of the net identifiable assets of the joint operation acquired, such difference is recognised directly in profit or loss.

Acquisitions of interests in oil and gas licences or similar joint operations where the joint operation is not considered to be a business, are accounted for as acquisitions of assets. The consideration for the interest is allocated to individual assets and liabilities acquired.

Foreign Currency Translation and Transactions

The functional currency and the reporting currency of the Company is NOK.

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities in foreign currencies are translated into functional currency at the balance sheet date exchange rates. Non-monetary items are translated at the historical exchange rate on the transaction date and non-monetary items that are measured at fair value are translated at the exchange rate on the date when the fair value was determined. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Revenue Recognition

Revenue from the sale of petroleum products is recognised when the Company's contractual performance obligation has been fulfilled; at delivery. The lifting schedule will vary with the production. The sales of petroleum products are for the most part to large international oil companies with investment grading. The pricing of the sales of petroleum products is based on current market terms for each product.

Revenues from sales of services are recorded when the service has been performed.

There is no significant judgement related to applying IFRS 15 to the Company's contracts.

Underlift and overlift of petroleum products

Underlift and overlift of petroleum products is valued at its net realisable value on the balance sheet date, and the change in under/over lift is presented as other operating income. Underlift and overlift is calculated as the difference between the Company's share of production and its actual sales and are classified as respectively current assets and current liabilities. If accumulated production exceeds accumulated sales there is an underlift (asset) and if accumulated sales exceeds accumulated production there is an overlift (liability).

Spareparts, equipment and inventory

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

Property, Plant and Equipment, including Oil and Gas Properties

General
Property, plant and equipment acquired by the Company are stated at historical cost, less accumulated depreciation and any impairment charges. Depreciation of other assets than oil and gas properties are calculated on a straight-line basis and adjusted for residual values and impairment charges, if any.

Ordinary repairs and maintenance costs, defined as day-to-day servicing costs, are charged to the income statement during the financial period in which they are incurred. The cost of major overhauls is included in the asset's carrying amount when it is probable that the Company will derive future economic benefits in excess of the originally assessed standard of performance of the existing asset. Major overhauls are depreciated over the period to the next major overhaul.

Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount and are included in operating profit.

Depreciation of Oil and Gas Properties
Capitalised costs for oil & gas fields in production are depreciated individually (on a field level) using the unit-of-production method. The depreciation is calculated based on proved and probable reserves. The rate of depreciation is equal to the ratio of oil and gas production for the period over the estimated remaining proved and probable reserves expected to be recovered at the beginning of the period. The rate of depreciation is multiplied with the carrying value plus estimated future capital expenditure necessary to develop any undeveloped reserves included in the reserve basis. Any changes in the reserves estimate that affect unit-of-production calculations, are accounted for prospectively over the revised remaining reserves.

Development Costs for Oil and Gas Properties
Costs of developing commercial oil and/or gas fields are capitalised. Capitalised development costs and acquisition cost of fields in development are classified as tangible assets (Oil and gas properties).

Intangible Assets

Goodwill
Goodwill arising from acquisitions of interests in oil and gas licences accounted for in accordance with the principles in IFRS 3 Business Combinations, is classified as intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses.

Exploration Costs for Oil and Gas Properties
The Company uses the 'successful efforts' method to account for exploration costs. All exploration costs with the exception of acquisition costs of licences and drilling costs of exploration wells are charged to expense as incurred.

Drilling costs of exploration wells are temporarily capitalised pending the determination of oil and gas reserves. If reserves are not found, or if discoveries are assessed not to be technically and commercially recoverable, the drilling costs of exploration wells are expensed. Costs of acquiring licences are capitalised and assessed for impairment at each reporting date.

License acquisition costs and capitalised exploration costs are classified as intangible assets (Exploration and Evaluation Assets) during the exploration phase.

Exploration and Evaluation Assets
Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount, and before reclassification as described below.

Intangible assets relating to expenditure on the exploration for and evaluation of oil and gas resources are reclassified from intangible assets (Exploration and Evaluation Assets) to tangible assets (Oil and gas properties under development) when technical feasibility and commercial viability of the assets are demonstrable, and the decision to develop a particular area is made. The assets are assessed for impairment, and any impairment loss recognised, before such reclassification.

These assets are subject to unit-of-production depreciations if and when production from the field is commenced.

Financial assets

The company's financial assets are: derivatives, trade receivables and cash and cash equivalents. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. The Company has classified its financial assets in four categories:

- Financial assets at amortized cost
- Financial assets at fair value through OCI with recycling of cumulative gains and losses
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition
- Financial assets at fair value through profit and loss

Financial assets at amortized cost
The Company measures financial assets at amortized cost if both of the following conditions are met:
- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows and,
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired. The Company's financial assets at amortized cost includes trade receivables and other short-term deposits.

Receivables are initially recognised at fair value less impairment losses.

Financial assets at fair value through profit and loss
Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of profit or loss.

The Company does not have any financial assets at fair value through OCI or designated at fair value through OCI.

Impairment of Assets

Property, plant and equipment and other non-current assets are subject to impairment testing when there is an indication that the assets may be impaired. At each reporting date, the Company assesses whether there is any indication that the assets may be impaired. If any indications exist, an impairment test is performed, i.e. the Company estimates the recoverable amount of the asset.

The recoverable amount is the higher of fair value less expected cost to sell and value in use (present value based on the future use of the asset). If the carrying amount of an asset is higher than the recoverable amount, an impairment loss is recognised in the income statement. The impairment loss is the amount by which the carrying amount of the asset exceeds the recoverable amount.

The value in use is determined by reference to discounted future net cash flows expected to be generated by the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows. An oil and gas field is considered to be one cash generating unit, all other assets are assessed separately.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount.

Provisions

General

A provision is recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

The amount of the provision is the present value of the risk adjusted expenditures expected to be required to settle the obligation, determined using the estimated risk-free interest rate adjusted for the Company's own credit risk as discount rate. Where discounting is used, the carrying amount of provision increases in each period to reflect the unwinding of the discount by the passage of time. This increase is recognised as finance cost.

Asset Retirement Obligations

The Company recognises an asset retirement obligation when the oil and gas installations are constructed and ready for production, or at the later date when the obligation is incurred.
The obligation is measured at the present value of the estimated future expenditures determined in accordance with local conditions and requirements for the dismantlement or removal of oil and gas installations.

Related asset retirement costs are capitalised as part of the carrying value of the tangible fixed asset and are depreciated over the useful life of the asset, i.e. unit-of-production method. The liability is accreted for the change in its present value each reporting period. Accretion expense related to the time value of money is classified as part of financial expense.

The provision and the discount rate are reviewed at each balance sheet date.

Contingent Liabilities

Contingent liabilities are not recognised in the financial statements unless probable. Significant contingent liabilities are disclosed, except for contingent liabilities where the probability of the liability occurring is remote.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs and transaction costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method, with the difference between net proceeds received and the redemption value being recognised in the income statement over the term of the loan. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised, as well as through the amortisation process.

Derivative financial instruments

The Company uses derivative financial instruments to manage certain exposures to fluctuations in oil price and foreign currency exchange rates. Such derivative financial instruments are initially recognised at fair value on the date of which a derivative contract is entered into and are subsequently re-measured at fair value through profit and loss. Hedge accounting is not applied. For derivative financial instruments where the underlying is a commodity, changes in fair value are recognised as part of operating activities. Changes in fair values for other derivative financial instruments are classified under financial items.

Income Taxes

The income tax expense/credit consists of current income tax (taxes payable/receivable) and changes in deferred income taxes.

Current Income Taxes

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the balance sheet date.

Oil-exploration companies operating on the Norwegian Continental Shelf under the offshore tax regime can claim a 78% refund of their exploration costs, limited to taxable losses for the year. The refund is paid out in November in the following year. This tax receivable is classified as a current asset.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Deferred Income Taxes

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognised for all deductible temporary differences (with the exception of temporary differences on acquisition of licences that is defined as an asset purchase), carry forward of unused tax credits and unused tax losses, to the extent that it is probable that the taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised. The carrying amount of deferred income tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered (onshore activity).

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 (including interest) from the tax authorities when operations cease. Deferred tax assets that are based on offshore tax losses carry forward are therefore normally recognised in full.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority/tax regime. Timing differences are considered.

Deferred tax assets and liabilities are recognised for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities and their respective tax bases, subject to the initial recognition exemption.
Deferred income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Uplift
Uplift is a special allowance in the tax basis for petroleum surtax in Norway. The uplift is computed on the basis of the original capitalised cost of offshore production installations and amounts to 5.3% of the investment per year. The uplift may be deducted from taxable income for a period of four years (i.e. in total 21.2% over four years), starting in the year in which the capital expenditures are incurred. The tax effect on the uplift s recognised when the deduction is included in the current year tax return and impacts taxes payable. Unused uplift may be carried forward indefinitely.

Employee benefits

Pensions
According to Norwegian law employees are mandatory members of the Company’s Pension Scheme (“obligatorisk tjeneste pensjon”). The scheme is based on a contribution plan. Contributions are paid to pension insurance plans and charged to the income statement in the period to which the contributions relate. Once the contributions have been paid, there are no further obligations to fund the scheme.

Share-based payment
Warrants and other equity instruments granted to employees are measured by reference to the fair value of the warrants or other equity instruments at the date on which they are granted. The fair value of the warrants or other equity instruments is estimated on the grant date and charged to expense over the vesting period, together with a corresponding increase in equity. The vesting period is the period in which the performance conditions are fulfilled, ending on the date on which they become fully entitled to the award (‘vesting date’).

Cash and Cash Equivalents

Cash and cash equivalents comprise of cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

Cash Flow Statement

The cash flow statement is prepared using the indirect method.

Leases (as lessee)

Leases in which most of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. The accounting for leases will change from 1 January 2019, upon implementation of IFRS 16.

Cost of Equity Transactions

Transaction costs directly attributable to an equity transaction are recognised directly in equity, net of taxes.

Related Parties

Parties are related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the party in making financial or operational decisions. Parties are also related if they are subject to joint or common control.

Transactions between related parties are transfers of resources, services or obligations, regardless of whether a price is charged. All transactions between related parties are made based on the principle of 'arm's length', which is the estimated market price.

Events after the balance sheet date

The financial statements are adjusted to reflect events after the balance sheet date that provide evidence of conditions that existed at the balance sheet date (adjusting events). The financial statements are not adjusted to reflect events after the balance sheet date that are indicative of conditions that arose after the balance sheet date (non-adjusting events). Non-adjusting events are disclosed if significant.

New and amended standards and interpretations adopted by the Company

The Company implemented IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with customers from 1 January 2018.

None of the two new standards had any significant impact on the Company's financial statements.

New and amended standards and interpretations issued but not adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2019, and have not been applied in preparing these financial statements. The most significant standards are set out below.

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

The Company will adopt the standard on 1 January 2019 using the modified retrospective approach. The implementation is currently estimated to have no impact on net equity and is estimated to result in an increase of approximately NOK 200 million in property, plant and equipment with a corresponding increase in liabilities. The Company is currently assessing some implementation issues relating to recording recharges to other partners and other presentational matters.

The Company has applied a gross presentation related to leasing contracts entered into as licence operator. There is expected to be mixed practice amongst operator companies on the Norwegian Continental Shelf in respect of this topic, and the Company's policy may be revised to a net presentation in the future if there is authoritative guidance from the IFRS Interpretations Committee on this topic and / or consistent industry practice to present net.

Note 3. Critical accounting judgements and estimates

The preparation of financial statements requires management to make judgments, use estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenues and expenses.

Although these estimates are based on management's best knowledge of historical experience and current events, actual results may differ from these estimates. The estimates and the underlying assumptions are reviewed on an ongoing basis.

Currently, the Company's most important accounting estimates are related to the following items:

Impairment
The Company reviews whether its non-financial assets have suffered any impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset is written down to its recoverable amount when the recoverable amount is lower than the carrying value of the asset. The recoverable amount is the higher of fair value less expected cost to sell and value in use (present value based on the future use of the asset).

All impairment assessment calculations require a high degree of estimation, including assessments of the expected cash flows from the cash generating unit and the estimation of applicable discount rates. Impairment testing requires long-term assumptions to be made concerning a number of economic factors such as future production levels, market conditions, production expense, discount rates and political risk among others, in order to establish relevant future cash flows. There is a high degree of reasoned judgement involved in establishing these assumptions, and in determining other relevant factors.

Goodwill is tested for impairment annually. For the purpose of impairment testing, goodwill is allocated to cash-generating unit (CGU), or groups of cash-generating units, that are expected to benefit from the synergies of the business combination from which it arose. The appropriate allocation of goodwill requires management's judgment and may impact the subsequent impairment charge significantly. The term "technical goodwill" is used to describe a category of goodwill arising as an offsetting account to deferred tax recognised in business combinations. There are no specific IFRS guidelines pertaining the allocation of technical goodwill, and management has therefore applied the general guidelines for allocating goodwill for the purpose of impairment testing. In general, technical goodwill is allocated to CGU level for impairment testing purposes, while residual goodwill may be allocated across all CGUs based on facts and circumstances in the business combination. When performing the impairment test for technical goodwill, deferred tax recognised in relation to the acquired licences reduces the net carrying value prior to the impairment charges. This is done to avoid an immediate impairment of all technical goodwill. When deferred tax from the initial recognition decreases, more goodwill is as such exposed for impairment. Going forward, depreciation of values calculated in the purchase price allocation will result in decreased deferred tax liability.

Fair value measurement
From time to time, the fair values of non-financial assets and liabilities are required to be determined,

e.g. when the entity acquires a business, determines allocation of purchase price in an asset deal or where an entity measures the recoverable amount of an asset or CGU at fair value less cost to sell. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. The fair value of oil fields in production and development phase is normally based on discounted cash flow models, where the determination of the different input in the model requires significant judgment from management, as described in the section below regarding impairment.

Asset Retirement Obligations

Production of oil and gas is subject to statutory requirements relating to decommissioning and removal once production has ceased. Provisions to cover these future asset retirement obligations must be accrued for at the time the statutory requirement arises. The ultimate asset retirement obligations are uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure can also change, for example, in response the changes in reserves or changes in laws and regulations or their interpretation.

Yme compensation contract breach

Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the financial statements of the period in which the change occurs. If an inflow of economic benefits has become probable, an entity discloses the contingent asset.

As of 31 December 2018 the Company determined that it was virtually certain that a contract breach settlement with SBM relating to the Yme license would be obtained. As a result OKEA has recognized an asset of NOK 115 million and recognized NOK 115 million as income in profit and loss. Please refer to note 26 for further details.

Note 4. Employee benefit expenses

Specification of employee benefits expenses

Amounts in NOK `000	2018	2017
Salary expenses	74 167	33 789
Employer's payroll tax expenses	11 775	5 319
Pensions	5 255	3 651
Share based payment	1 361	-
Other personnel expenses	1 006	942
Charged to operated licences	-48 072	-14 876
Reclassified to oil and gas properties under development	-11 309	-17 117
Total employee benefits expenses	**34 183**	**11 707**
Number of man-years during the year	40	26

Pensions

The Company has a defined contribution pension plan for its employees which satisfies the statutory requirements in the Norwegian law on required occupational pension ("lov om obligatorisk tjenestepensjon").

Compensation to management in 2018:

Amounts in NOK `000	Salary	Bonus	Pension	Other benefits
Erik Haugane (CEO)	2 504	764	164	13
Ola Borten Moe (SVP Business Development)	2 137	623	163	13
Knut Evensen (SVP Finance and IR)	2 137	623	166	13
Anton Tronstad (SVP Projects and Technology)	2 131	665	168	13
Dag Eggan (SVP Business Performance)	2 137	623	164	13
Tor Bjerkestrand (SVP Operations) *	233	-	13	37
Kjersti Hovdal (SVP Controlling & Accounting) *	150	-	14	3
Total compensation to management	**11 428**	**3 296**	**851**	**104**

* Amounts included only for December 2018, from which the person became member of Executive Management Team.

Compensation to management in 2017:

Amounts in NOK `000	Salary	Bonus	Pension	Other
Erik Haugane (CEO)	2 368	-	155	11
Ola Borten Moe (SVP Business Development)	2 068	-	157	11
Knut Evensen (SVP Finance and IR)	2 064	-	159	11
Anton Tronstad (SVP Projects and Technology)	2 056	-	162	11
Dag Eggan (SVP Business Performance)	2 073	-	164	11
Total compensation to management	**10 629**	**-**	**797**	**56**

Compensation to Board of Directors in 2018:

Amounts in NOK `000	Board fees
Henrik Schröder (Deputy Chairman of the Board)	213
Paul Anthony Murray (Board Member)	142
Kaare Gisvold (Board Member)	142
Knud Hans Nørve (Board Member)	142
Arild Christian Selvig (Board Member)	142
Total compensation to Board of Directors	**779**

Chaiwat Kovavisarach and Michael William Fisher joined the Board of Directors on 1 November 2018.
No compensation has been paid in 2018.

There was no compensation to Board of Directors in 2017.

Erik Haugane, CEO, is entitled to 6 months' severance pay, based on his monthly salary at the relevant time, upon being terminated by the Company. Knut Evensen is entitled to two years' salary as severance pay if the employment agreement is terminated, which can happen no earlier than after the IPO (Initial Public Offering). There are no other agreements regarding severance pay on termination of employment for the management or to members of the Board of Directors. The management is included in the general employee bonus programme as determined by the board of directors. In addition, Knut Evensen will be awarded a bonus up to one-year salary if the IPO is successfully completed.

The bonus to employees in 2018 was based on salary level and duration of the employment in the company. The bonus was used to acquire shares in OKEA. No loans have been granted and no guarantees have been issued to the management or any member of the Board of Directors.

Note 4. Employee benefit expenses (continued)

Share based payment

In February 2018 OKEA granted 125 000 equity-settled warrants to employees, each warrant with a exercise price of NOK 179. Expiry date for the warrants is 1 October 2022. It is a requirement that the employees are still employed by OKEA when exercising the warrants. The assessed fair value at grant date of warrants granted is NOK 58.8 per warrant. The fair value at grant date is determined using a Black Scholes Model. The most significant inputs and assumptions in determining fair value at grant date is:
- Excercise price NOK 179
- Share price at grant date NOK 179
- Expected volatility 34.7%
- Risk free interest rate 1.5%
- Term of options 4.5 years

Warrants granted in connection with share based payment owned by management:

	Number of warrants	**Expense recognised**
Erik Haugane (CEO)	25 000	272
Ola Borten Moe (SVP Business Development)	25 000	272
Knut Evensen (SVP Finance and IR)	25 000	272
Anton Tronstad (SVP Projects and Technology)	25 000	272
Dag Eggan (SVP Business Performance)	4 000	44
Tor Bjerkestrand (SVP Operations)	4 000	44
Other employees	17 000	185
Total	**125 000**	**1 361**

Overview of outstanding warrants in connection with sharebased payment:

	2018	**2017**
Outstanding warrants at 1.1	-	-
Warrants granted	125 000	-
Warrants forfeited	-	-
Warrants exercised	-	-
Warrants expired	-	-
Outstanding warrants at 31.12	**125 000**	**-**
Of which exercisable	**125 000**	**-**

Note 5. Other operating expenses

Specification of other operating expenses

Amounts in NOK `000	**2018**	**2017**
Lease expenses	3 485	3 081
Technical consultants *	133 208	12 155
Business consultants	20 897	12 795
Travel expenses	3 583	3 721
Insurance	10 333	2 695
Other operating expenses	16 842	3 813
Charged to operated licences	-96 207	-2 960
Reclassified to oil and gas properties under development	-4 242	-2 171
Total other operating expenses	**87 899**	**33 128**

* Technical consultants in 2018 provided services related to the transfer of operatorship for the Draugen field.
A major part of the expenses have been charged to the licence.

Auditor's fees (ex. VAT)

Amounts in NOK `000	**2018**	**2017**
Auditor's fee	944	855
Other attestation services	93	118
Tax advisory	-	-
Other services	104	223
Total auditor's fees	**1 141**	**1 196**

Note 6. Financial items

Amounts in NOK `000	**2018**	**2017**
Interest income	9 062	500
Unwinding of discount asset retirement receivable	8 238	-
Exchange rate gain	-	1 892
Total finance income	**17 300**	**2 392**
Interest expense shareholder loan	-	-2 491
Interest expense bond loan	-157 088	-10 096
Other interest expense	-3 844	-133
Put options, foreign exchange	-28 164	-
Exchange rate loss	-156 246	-8 236
Unwinding of discount asset retirement obligations	-18 316	-6 001
Other financial expense	-2 605	-141
Total finance costs	**-366 263**	**-27 098**

Note 7. Taxes

Income taxes recognised in the income statement

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

Reconciliation of income taxes

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

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

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

Note 7. Taxes (continued)

Change in deferred taxes

Amounts in NOK `000	**2018**	**2017**
Deferred tax income / expense (-)	-519 194	48 061
Deferred tax from Business combination	-456 146	-
Taxes charged to equity	3 466	-
Total change in deferred tax assets	**-971 874**	**48 061**

Specification of income tax payable

Amounts in NOK `000	**2018**	**2017**
Tax payable from Business combination	-794 091	-
Tax credit recognised in the income statement	638 370	-
Tax refund current year	-	20 719
Total income tax payable (-)/tax refund	**-155 722**	**20 719**

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

Companies operating on the Norwegian Continental Shelf under the offshore tax regime can claim the tax value of any unused tax losses or other tax credits related to its offshore activities to be paid in cash (including interest) from the tax authorities when operations cease. Deferred tax assets that are based on offshore tax losses carried forward are therefore normally recognised in full.

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

Note 8. Exploration expenses

Specification of exploration expense

Amounts in NOK `000	**2018**	**2017**
Share of exploration expenses from participation in licences (from billing)	44 529	23 752
Seismic and other exploration expenses, outside billing	30 253	4 958
Total exploration expenses	**74 782**	**28 710**

Note 9. Intangible assets

Amounts in NOK `000	Goodwill	Exploration and evaluation assets	Total
2018			
Cost at 1 January 2018	8 057	5 752	13 809
Additions	-	573	573
Additions through business combination	1 464 371	-	1 464 371
Disposals	-	-	-
Expensed exploration expenditures previously capitalised	-	-	-
Cost at 31 December 2018	**1 472 428**	**6 324**	**1 478 752**
Accumulated amortisation and impairment at 1 January 2018	-	-	-
Amortisation for the year	-	-	-
Impairment	-	-	-
Disposals	-	-	-
Accumulated amortisation and impairment at 31 December 2018	**-**	**-**	**-**
Carrying amount at 31 December 2018	**1 472 428**	**6 324**	**1 478 752**
2017			
Cost at 1 January 2017	8 057	4 752	12 809
Additions	-	999	999
Disposals	-	-	-
Expensed exploration expenditures previously capitalised	-	-	-
Cost at 31 December 2017	**8 057**	**5 752**	**13 809**
Accumulated amortisation and impairment at 1 January 2017	-	-	-
Amortisation for the year	-	-	-
Impairment	-	-	-
Disposals	-	-	-
Accumulated amortisation and impairment at 31 December 2017	**-**	**-**	**-**
Carrying amount at 31 December 2017	**8 057**	**5 752**	**13 809**

Note 10. Tangible fixed assets

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

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

Amounts in NOK `000	Oil and gas properties in production	Oil and gas properties under development	Buildings	Furniture, fixtures and office machines	Total
2017					
Cost at 1 January 2017	123 039	390 056	-	233	513 327
Additions	18 956	123 083	-	-	142 038
Removal and decommissioning asset	-471	39 905			39 434
Disposals					-
Transfer of assets					-
Cost at 31 December 2017	**141 524**	**553 044**	**-**	**233**	**694 800**
Accumulated depreciation and impairment at 1 January 2017	-171	-	-	-9	-180
Depreciation for the year	-18 018	-	-	-7	-18 025
Impairment	-	-	-	-	-
Disposals	-	-	-	-	-
Accumulated depreciation and impairment at 31 December 2017	**-18 189**	**-**	**-**	**-15**	**-18 205**
Carrying amount at 31 December 2017	**123 334**	**553 044**	**-**	**217**	**676 595**
Depreciation plan	Unit of Production	1)	Linear	Linear	
Estimated useful life (years)	N/A		20	3 - 5	

1) Depreciation starts when the asset is in production

Amounts in NOK `000	2019	2020	2021	2022
Planned capital expenditure for existing licences (Work Program and Budget)	790 185	662 591	463 712	66 954

Note 11. Trade and other receivables

Amounts in NOK `000	31.12.2018	31.12.2017
Accounts receivable and receivables from operated licences	125 072	1 875
Accrued Yme compensation	115 000	-
Accrued revenue	89 960	2 227
Prepayments	10 127	2 892
Working capital and overcall, joint operations/licences	156 306	21 255
Escrow receivable, Yme removal	901	64 681
Underlift of petroleum products *	430 765	5 501
VAT receivable	16 266	557
Tax refund	-	20 719
Other receivables	-	500
Total trade and other receivables	**944 397**	**120 207**

The receivables all mature within one year.

* Underlift is mainly related to crude oil from Draugen lifted in January 2019. The Draugen underlift is acquired underlift. See also note 25.

Note 12. Restricted cash, Cash and cash equivalents

Restricted cash:

Amounts in NOK `000	31.12.2018	31.12.2017
Bank deposit, restricted, escrow accounts *	48 327	907 799
Total restricted cash	**48 327**	**907 799**

* See information about the escrow accounts established in connection with the bond loans in note 16.

Cash and cash equivalents:

Amounts in NOK `000	31.12.2018	31.12.2017
Bank deposits, unrestricted	388 887	27 487
Bank deposit, employee taxes	5 784	2 122
Total cash and cash equivalents	**394 670**	**29 609**

Note 13. Share capital and shareholder information

Number of shares	Ordinary shares	A ordinary shares	Preference shares	Total shares
Outstanding shares at 1.1.2017	14 150	-	99 215	113 365
New shares issued in connection with debt conversion, Registration of share issue in Company Registry	74	-	73 250	73 324
New shares issued in exchange for cash, Registration of share issue in Company Registry	160			160
New shares issued in connection with debt conversion		-	27 782	27 782
New shares issued in exchange for cash		-	32 750	32 750
Number of outstanding shares, before share split 1:100 on 12 December 2017	**14 384**	**-**	**232 997**	**247 381**
Number of outstanding shares at 31 December 2017, after share split 1:100	**1 438 400**	**-**	**23 299 700**	**24 738 100**
Capital decrease, redemption of preference shares (equity restructuring) *			-23 299 700	-23 299 700
New shares issued in connection with debt conversion (equity restructuring) *	1 686 600			1 686 600
New shares issued in exchange for cash	4 194 389	901 061		5 095 450
Number of outstanding shares at 31 December 2018	**7 319 389**	**901 061**	**-**	**8 220 450**
Nominal value NOK per share at 31 December 2018				1
Share capital NOK at 31 December 2018				8 220 450

Each ordinary share has one vote at general meetings. The A ordinary shares do not have voting rights. Otherwise, the ordinary shares and the A ordinary shares have equal rights, including equal rights to dividend and other distributions. The A ordinary shares shall be converted into ordinary shares at predetermined events.

At 31 December 2017 the Company had two classes of shares. The holders of the preference shares had a preferred right to a cumulative 8% dividend on invested preference capital as well as return of capital from the Company before the holders of ordinary shares would receive any return of capital or dividend.

* In 2018 OKEA has restructured the Company's equity, by way of transforming the preference shares into ordinary shares. The restructuring included a reduction of the Company's share capital, by repayment of the par value of the preference shares with NOK 23 299 700, from NOK 24 738 100 to NOK 1 438 400. Subsequent to the share capital reduction, a related increase of the Company’s share capital with NOK 1 686 600, from NOK 1 438 400 to NOK 3 125 000, where the amount distributed by the Company in the share capital reduction (by way of establishing a receivable on the Company) was used as contribution on the new shares that were issued. The net effect of this restructuring of the Company's equity was a transforming of the preference shares into ordinary shares.

Shareholders at 31 December 2018:

Shareholder	Ordinary shares	A ordinary shares	Preference shares	% Share
BCPR Pte Ltd (Bangchak)	3 153 714	901 061		49,325 %
OKEA Holdings Ltd	2 875 300			34,977 %
Sparebank 1 SMN Invest AS	162 730			1,980 %
Sjækerhatten AS	120 741			1,469 %
Other shareholders (< 1% share)	1 006 904			12,249 %
Total	**7 319 389**	**901 061**	**0**	**100,000 %**

Shares owned by management and Board of Directors at 31 December 2018:

Shareholder	Ordinary shares	A ordinary shares	Preference shares	% Share
Erik Haugane (CEO)	82 134			0,999 %
Ola Borten Moe (SVP Business Development)	54 539			0,663 %
Knut Evensen (SVP Finance and IR)	53 139			0,646 %
Anton Tronstad (SVP Projects and Technology)	120 741			1,469 %
Dag Eggan (SVP Business Performance)	17 479			0,213 %
Tor Bjerkestrand (SVP Operations)	1 080			0,013 %
Kjersti Hovdal (SVP Controlling & Accounting)	10 000			0,122 %
Kaare Gisvold (Board Member)	14 592			0,178 %
Knud Hans Nørve (Board Member)	2 592			0,032 %
Arild Christian Selvig (Board Member)	1 296			0,016 %
Total	**357 592**	**0**	**0**	**4,350%**

Note 13. Share capital and shareholder information (continued)

Warrants:

Overview of outstanding warrants:

	2018	2017
Outstanding warrants at 1 January	-	-
Warrants granted to employees in connection with sharebased payment *	125 000	-
Warrants issued to shareholders in connection with share issues **	810 016	-
Outstanding warrants at 31 December	**935 016**	**-**

* See note 4 for information about 125 000 warrants granted to employees in connection with share based payment.

** Information about warrants issued to shareholders in connection with share issues:

	Number of warrans	Excercise price
Trigger 1 warrants	463 455	NOK 1
Trigger 2 warrants	346 561	NOK 1
Total number of warrants	**810 016**	

The trigger 1 warrants may only be exercised if the Company has not achieved Decision Gate 2 (DG2) Status on the Grevling License prior to an IPO or immediately prior to closing of a Trade Sale (sale of all the shares in the Company).

The trigger 2 warrants may only be exercised in the event the Company has achieved Plan for Development of Operation (PDO) Status on the Grevling Licence prior to any Initial Public Offering (IPO) or immediately prior to closing of a Trade Sale (sale of all the shares in the Company).

The warrants shall expire on and no longer be exercisable on the earlier of (i) if not exercised prior to 15 days after a notification from the Board of a contemplated IPO or of the entering into of an agreement related to a Trade Sale, and (ii) the date 5 years following the date of the resolution of the general meeting of the Company to issue the warrants.

Warrants issued in connection with share issues owned by management and Board of Directors at 31 December 2018:

	Trigger 1 warrants	Trigger 2 warrants	Total warrants
Erik Haugane (CEO)	-	7 662	7 662
Ola Borten Moe (SVP Business Development)	-	5 088	5 088
Knut Evensen (SVP Finance and IR)	-	4 957	4 957
Anton Tronstad (SVP Projects and Technology)	4 000	7 636	11 636
Dag Eggan (SVP Business Performance)	222	1 429	1 651
Tor Bjerkestrand (SVP Operations)	111	-	111
Kjersti Hovdal (SVP Controlling & Accounting)	1 028	-	1 028
Kaare Gisvold (Board Member)	266	1 119	1 385
Knud Hans Nørve (Board Member)	266	-	266
Arild Christian Selvig (Board Member)	133	-	133
Other shareholders	457 429	318 670	776 099
Total number of warrants	**463 455**	**346 561**	**810 016**

Note 14. Provisions

Non-current provisions:

Amounts in NOK `000	2018	2017
Provision at 1 January	319 668	202 466
Additions through asset acquisition	-	107 507
Additions through business combination	3 512 231	-
Changes in Operator's estimate	9 094	3 694
Unwinding of discount	18 316	6 001
Total non-current provisions at 31 December	**3 859 308**	**319 668**
Of this:		
Asset retirement obligations	3 849 308	309 668
Accrued consideration from acquisitions of interests in licenses	10 000	10 000

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.

Current provisions:

Amounts in NOK `000	31.12.2018	31.12.2017
Asset retirement obligation related to the ongoing removal of installations on the Yme field	3 410	5 554
Total current provisions at 31 December	**3 410**	**5 554**

Note 15. Trade and other payables

Amounts in NOK `000	31.12.2018	31.12.2017
Trade creditors	76 871	7 765
Accrued holiday pay and other employee benefits	18 965	3 743
Working capital, joint operations/licences	446 961	34 837
Accrued interest bond loans	10 917	9 238
Accrued consideration from acquisitions of interests in licenses	204 782	8 940
Prepayments from customers	96 353	-
Fair value put options, foreign exchange	15 564	-
Other accrued expenses	275 509	1 490
Total trade and other payables	**1 145 923**	**66 013**

The payables all mature within 6 months.

Note 16. Interest-bearing loans and borrowings

Amounts in NOK `000	**31.12.2018**	**31.12.2017**
Bond loan (OKEA01) *	1 042 620	985 350
Bond loan (OKEA02) **	1 563 930	-
Capitalized fees bond loans	-77 961	-22 038
Total Interest-bearing loans and borrowings	**2 528 589**	**963 312**

* In November 2017 the Company entered into a USD 120 million secured bond loan OKEA01. Maturity date for the entire loan is in November 2020. Interest rate is fixed at 7.5% p.a. with half-yearly interest payments.

** In June 2018 the Company entered into a USD 180 million secured bond loan OKEA02. Maturity date for the entire loan is in June 2023. The interest rate is 3 month LIBOR plus 6.5% p.a. with quarterly interest payments. The net proceeds from the bond issue was used to finance the acquisition of interests in the Draugen and Gjøa fields from A/S Norske Shell. The net proceeds from the bond issue was converted into NOK and placed on an escrow account until released when the equity financing of the acquisition was completed.

In connection with the settlement for the Shell transaction, the funds from OKEA01 and OKEA02 were released to the Company, without the condition for such release linked to new equity being registered having been fulfilled, against a condition to have an amount standing to an escrow account of USD 5.3 million. The waiver given by the Nordic Trustee originally set a deadline of 23 February 2019, now extended to 30 June 2019, to fulfill the requirements for the registration of new equity being paid in to the Company.

OKEA has in 2019 placed an additional USD 10.9 million in escrow, which for purposes of calculation of one of the financial covenants in the Company's bond loans will reduce total debt. The total amount in escrow after this payment in 2019 is USD 16.2 million. During 2018 and at 31 December 2018 the Company was in compliance with the covenants under the bond agreements.

The bond loans have security in all major assets of the Company. The bond agreements puts certain restrictions on dividend payments and capital reductions, and have financial covenants in addition to requirements with respect to equity increases.

Changes in Intererest-bearing loans and borrowings:

Amounts in NOK `000	**2018**	**2017**
Interest bearing loans and borrowings 1 January	963 312	-
Cash flows:		
Gross proceeds from borrowings, bond loan	1 467 468	984 312
Transaction costs, bond loan	-68 404	-22 897
Total cash flows:	**1 399 065**	**961 415**
Non-cash changes:		
Amortization of transaction costs, bond loans	12 481	859
Foreign exchange movement, bond loans	153 732	1 038
Interest bearing loans and borrowings 31 December	**2 528 589**	**963 312**

Note 16. Interest-bearing loans and borrowings (continued)

Financial covenants
The "OKEA AS 7.50 % open callable senior secured USD 150,000,000 bonds 2017/2020" (NO0010810062) ("OKEA01") and the "Okea AS FRN open callable senior secured USD 210,000,000 bonds 2018/2023" (NO0010826852) ("OKEA02") (hereinafter jointly referred to as the "Bonds") are in all material aspects aligned on financial covenants and includes the following financial covenants:

(a) Liquidity: at all times maintain a minimum Liquidity of USD 10,000,000;
(b) Capital Employed Ratio on each Calculation Date maintain a Capital Employed Ratio not lower than 35% on OKEA02 and not lower than 40% under OKEA01; and
(c) Leverage Ratio on each Calculation Date maintain a Leverage Ratio not exceeding 2:1.

For the sake of good order, please note that OKEA01 also contains certain alternative covenant (that the company can choose to test on instead of the above), but that the company currently tests compliance with the above mentioned financial covenants.

Security granted
The obligations under OKEA01 and OKEA02 are secured with the following security granted in favour of the Nordic Trustee AS acting on behalf of the bondholders on OKEA01 and OKEA02:

(i) Pledge in the Escrow Accounts under the bonds and certain other bank accounts of the company;
(ii) Pledge in production licences;
(iii) Pledge in insurances;
(iv) the assignment of claims under the share and purchase agreement for participating interests in the Yme field; and
(v) Pledge in factoring charge.

Note 17. Shareholder loan

Amounts in NOK `000	**31.12.2018**	**31.12.2017**
Loan from shareholder OKEA Holdings Ltd	1 141	1 141
Total shareholder loan	**1 141**	**1 141**

Interest rate is 5%.

Changes in shareholder loan:

Amounts in NOK `000	**31.12.2018**	**31.12.2017**
Shareholder loan 1 January	1 141	20 237
Cash flows:		
Proceeds from borrowings	-	92 280
Repayment of borrowings	-	-58 300
Total cash flows:	**1 141**	**54 217**
Non-cash changes:		
Conversion of debt to equity	-	-55 564
Accrued interest	-	2 488
Shareholder loan 31 December	**1 141**	**1 141**

Note 18. Commitments and Contingencies

The Company has not been involved in any legal or financial disputes in 2018 or 2017, other than an insurance claim related to the Yme project. In 2018 SBM Offshore reached an agreement for final settlement of insurance claim related to the Yme project. As partner in Yme, OKEA is receiving a compensation for breach of contract from SBM Offshore. See note 26.

Minimum work programmes
The Company is required to participate in the approved work programmes for the licences. See note 10 for a specification of future committed capital expenditure.

Liability for damages/insurance
The Company's operations involves risk for damages, including pollution. Installations and operations are covered by an operations insurance policy.

Note 19. Related party transactions

Transactions with related parties:

Amounts in NOK `000	2018	2017
Seacrest Capital Group Ltd *	5 247	3 534
BCPR Pte Ltd **	34 789	
Kyllingstad, Kleveland Advokatfirma DA ***		173

* Seacrest Capital Group Ltd is the controlling party of OKEA's shareholder OKEA Holdings Ltd (former majority shareholder).

** BCPR Pte Ltd (Bangchak) is the majority shareholder of OKEA.

*** The Managing Partner of Kyllingstad, Kleveland Advokatfirma DA was a former Board Member of OKEA.

Trade and other payables, related parties:

Amounts in NOK `000	31.12.2018	31.12.2017
Seacrest Capital Group Ltd	5 413	3 534
BCPR Pte Ltd	34 789	-

See note 4 for information about compensation to CEO and Board of Directors.

See note 17 for information about loan from shareholder OKEA Holdings Ltd.

Note 20. Segment reporting

The Company has identified its reportable segments based on the nature of the risk and return within its business. The Company's only business segment is development and production of oil and gas on the Norwegian Continental Shelf.

Approximately 95% of the Company's sales revenue recognised in 2018 is from sale to two oil companies which are subsidiaries of an international oil company with Standard & Poor's long-term credit rating AA-.

Note 21. Operating Leases

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.

Operating expenses related to lease agreements accounted for as operating leases

Amounts in NOK `000	2018	2017
Office facilities	3 485	3 081
Total	**3 485**	**3 081**

Future minimum lease payments under non-cancellable lease agreements

Amounts in NOK `000	31.12.2018	31.12.2017
Within 1 year	45 245	1 852
1 to 5 years	131 439	3 105
After 5 years	107 469	-
Total	**284 154**	**4 957**

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

Note 22. Financial instruments

Financial instruments by category
Amounts in NOK `000

Year ended 31 December 2018

Financial assets

Amounts in NOK `000	Amortized cost	Fair value through profit or loss	Total carrying amount
Trade and other receivables *	275 756		275 756
Restricted cash	48 327		48 327
Cash and cash equivalents	394 670		394 670
Total	**718 753**	**-**	**718 753**

Financial liabilities

Amounts in NOK `000	Amortized cost	Fair value through profit or loss	Total carrying amount
Trade and other payables *	766 428	15 564	781 992
Shareholder loan	1 141		1 141
Interest-bearing loans and borrowings	2 528 589		2 528 589
Total	**3 296 158**	**15 564**	**3 311 723**

* Prepaid expenses, VAT receivable, accrued receivables and accrued expenses are not included. Option derivatives are included (at Fair Value through profit or loss).

Year ended 31 December 2017

Financial assets

Amounts in NOK `000	Loans and receivables	Fair value through profit or loss	Total carrying amount
Trade and other receivables *	83 021		83 021
Restricted cash	907 799		907 799
Cash and cash equivalents	29 609		29 609
Total	**1 020 428**	**-**	**1 020 428**

Financial liabilities

Amounts in NOK `000	Amortized cost	Fair value through profit or loss	Total carrying amount
Trade and other payables *	31 773		31 773
Shareholder loan	1 141		1 141
Interest-bearing loans and borrowings	963 312		963 312
Total	**996 225**	**-**	**996 225**

* Prepaid expenses, VAT receivable, accrued receivables and accrued expenses are not included.

Fair value of financial instruments
It is assessed that the carrying amounts of financial assets and liabilities, except for interest-bearing loans and borrowings, is approximately equal to its fair values. For interest-bearing loans and borrowings, the fair value is estimated to be NOK 2 622 711 thousand at year end 2018 (2017: NOK 985 350 thousand). At year end 2018 both bond loans are listed on the Oslo Stock Exchange and the fair value is based on quoted market prices (level 1 in the fair value hierarchy). At year end 2017 the bond loan OKEA01 was not listed on the Oslo Stock Exchange and the estimation of fair value was based on no material change in market interest rate and credit risk since the borrowing.

Fair value of put options, foreign exchange is based on quoted market prices at the balance sheet date (level 2 in the fair value hierarchy). The Company has entered into a «Zero-Cost Collar» for fixing the USD rate between a floor of 8.3725 and a ceiling of 8.3825 for future NOK payments of a total of NOK 600 million. The position has a fair value equal to book value of NOK -15.6 million at 31.12.2018.

Note 23. Financial Risk Management

Overview
The Company is exposed to a variety of risks, including credit risk, liquidity risk, interest rate risk, oil and gas price risk and currency risk. This note presents information about the Company's exposure to each of the above mentioned risks, and the Company's objectives, policies and processes for managing such risks. The note also presents the Company's objectives, policies and processes for managing capital.

Credit risk
The Company has no significant credit risk. The Company is exposed to credit risk related to trade receivables and cash and cash equivalents. Sales are only made to customers that have not experienced any significant payment problems. Cash and cash equivalents are deposits with banks.

Liquidity risk
Liquidity risk is the risk of being unable to pay financial liabilities as they fall due. The Company’s approach to managing liquidity risk is to ensure that it will always have sufficient liquidity to meet its financial liabilities as they fall due, under normal as well as extraordinary circumstances, without incurring unacceptable losses or risking damage to the Company’s reputation.

The table below shows a maturity analysis for financial liabilities:
The cash flows below assumes repayment on the latest date available, even if expected repayment may be earlier.

31.12.2018

Amounts in NOK `000	Carrying amount	Cash Flow	< 1 year	1-5 Year
Trade and other payables	781 992	781 992	781 992	
Shareholder loan	1 141	1 141	1 141	
Interest-bearing loans and borrowings	2 528 589	2 606 550		2 606 550
Interest-bearing loans and borrowings, interest		788 719	218 713	570 006
Total financial liabilities	**3 311 723**	**4 178 403**	**1 001 847**	**3 176 556**

31.12.2017

Amounts in NOK `000	Carrying amount	Cash Flow	< 1 year	1-5 Year
Trade and other payables	31 773	31 773	31 773	
Shareholder loan	1 141	1 141	1 141	
Interest-bearing loans and borrowings	963 312	985 350		985 350
Interest-bearing loans and borrowings, interest		221 704	73 901	147 803
Total financial liabilities	**996 225**	**1 239 967**	**106 815**	**1 133 153**

The table below shows a maturity analysis for financial assets:

31.12.2018

Amounts in NOK `000	Carrying amount	Cash Flow	< 1 year	1-5 Year
Trade and other receivables	275 756	275 756	275 756	
Restricted cash	48 327	48 327	48 327	
Cash and cash equivalents	394 670	394 670	394 670	
Total financial assets	**718 753**	**718 753**	**718 753**	**-**

Note 23. Financial Risk Management (continued)

31.12.2017

Amounts in NOK `000	Carrying amount	Cash Flow	< 1 year	1-5 Year
Trade and other receivables	83 021	83 021	83 021	
Restricted cash	907 799	907 799	907 799	
Cash and cash equivalents	29 609	29 609	29 609	
Total financial assets	**1 020 428**	**1 020 428**	**1 020 428**	**-**

Interest rate risk

The Company's exposure to interest rate risk is related to the bond loan OKEA02, with floating interest rate conditions of 3 month LIBOR plus 6.5% p.a. The Company has no other interest-bearing borrowings with floating interest rate conditions. The bond loan OKEA01 has fixed interest rate at 7.5% p.a.

Sensitivity analysis:
Interest rate sensitivity is calculated based on the exposure to interest-bearing debt with floating interest rate conditions on the balance sheet date.
2018: If 3 month LIBOR had been 50 basis points higher/lower, the Company's profit after tax would have been NOK 6 million lower/higher.
2017: The Company had no borrowings with floating interest rate conditions and was consequently not exposed to interest rate risk related to borrowings.

Currency risk

The Company is exposed to foreign exchange rate risk related to the value of NOK relative to other currencies, mainly due to oil sales i USD, operational costs in USD and development costs in USD.

At 31 December 2018 the Company is exposed to exchange rate risk mainly due to bank deposits and bond loans in USD.

Sensitivity analysis at 31 December 2018:
If the NOK had gained 5% against the USD at 31 december 2018, the Company's profit after tax would have been NOK 93.2 million higher.
If the NOK had weakened 5% against the USD at 31 december 2018, the Company's profit after tax would have been NOK 93.2 million lower.

Sensitivity analysis at 31 December 2017:
If the NOK had gained 5% against the USD at 31 december 2017, the Company's profit after tax would have been NOK 20 million higher.
If the NOK had weakened 5% against the USD at 31 december 2017, the Company's profit after tax would have been NOK 20 million lower.

The Company has from 2018 started using derivative financial instruments (put options) to manage certain exposures to fluctuations in foreign exchange rates.

Oil and gas price risk

The Company's revenue is from oil and gas sales which is exposed to fluctuations in the oil and gas price level.

The Company has from 2018 started using derivative financial instruments (put options) to manage certain exposures to fluctuations in oil prices.

Capital management

The overall objective of the Company is to ensure that it maintains a strong financial position and healthy capital ratios in order to support its business and maximise shareholder value.

The Company manages its capital structure, and makes adjustments to it, in light of changes in economic conditions.

Note 24. Asset acquisitions

During 2018 and 2017 the Company completed the following acquisitions in interests in licences on the Norwegian Continental shelf, accounted for as acquisitions of assets:

Year	License	Name	Interest	Seller	Effective date	Completion
2017	PL316/316B	Yme	5 %	Repsol Norge AS	01.01.2017	30.11.2017

In addition, OKEA increased its interest in PL038D Grevling with 40% from 30% to 70% during 2017. Subsequent to this increase in interest, the Company became the operator for this field.

In January 2019 OKEA completed the acquisition of a 50% interest in PL958 from Shell. Effective date for the transaction is 22 June 2018.

Note 25. Business combinations

Acquisitions in 2018

Acquisition of a 44.56% interest in Draugen and a 12% interest in Gjøa
On 30 November 2018 the Company completed the acquisition of a 44.56% working interest in Draugen (PL093), a 12% working interest in Gjøa (PL153) and the office building "Råket" in Kristiansund from A/S Norske Shell. OKEA also assumed the operatorship of the Draugen field effective from 30 November 2018. As part of the transaction, 153 employees were transferred from A/S Norske Shell to OKEA. OKEA has specialized in small and mid-sized developments on the Norwegian Continental Shelf. The Shell Acquisition transformed OKEA to become an operator for a producing field and puts the Company in a strong position to execute on its organic growth strategy and pursue further M&A opportunities.

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

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

A preliminary purchase price allocation (PPA) has been performed and all identified assets and liabilities have been measured at their acquisition date fair values in accordance with the requirements of IFRS 3. The agreed purchase price is NOK 4 520 million. Adjusted for interim period adjustments and working capital, the total cash consideration is estimated to NOK 2 930 million. At this stage, the purchase price allocation is preliminary due to the complexity of the transaction and the fact that OKEA is in the process of performing a detailed review of the final completion statement prepared by the seller. As a result, the final PPA and the impact on the financial statements from the transaction may differ. The final PPA will be completed within 12 months of the acquisition at the latest.

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

Amounts in NOK `000	
Assets	
Tangible fixed assets	3 141 883
Receivables on seller*	2 745 999
Net working capital	340 218
Total assets	6 228 100
Liabilities	
Deferred tax liability	456 145
Asset retirement obligation	3 512 231
Tax payable	794 091
Total liabilities	4 762 467
Total identifiable net assets at fair value	1 465 632
Total consideration	2 930 003
Goodwill	1 464 371
Goodwill consist of:	
"Ordinary" goodwill	166 632
"Technical" goodwill	1 297 739
Total goodwill	1 464 371

* The parties have agreed that the seller shall cover 80% of the costs of decommissioning, plugging and abandonment of the acquired oilfields at the time of cease of production limited to an agreed cap.

The ordinary goodwill consists largely of the synergies expected from acquiring the Draugen organization, which provides a platform for generating future growth on the Norwegian Continental Shelf. The technical goodwill arises as a consequence of the requirement to recognize deferred tax for the differences between the assigned fair values (which have been based on a post-tax market for such transactions) and the tax basis of assets acquired, and liabilities assumed. None of the goodwill recognized will be deductible for income tax purposes.

From the date of acquisition (30 November 2018), the acquired licences contributed with NOK 124 million of operating income and NOK 81 million to the profit before tax. A preliminary estimation of the impact from the transaction indicates that if the acquisition had taken place at the beginning of the year, total revenues for the year would have been approximately NOK 3.2 billion higher and profit before tax would have been approximately NOK 1.6 billion higher.

Note 26. YME compensation contract breach and other operating income

YME compensation contract breach:

On 11 March 2013 Repsol Norge AS as operator for and on behalf of the Yme licensees entered into a settlement agreement with Single Buoy Moorings Inc ("SBM") terminating the Yme MOPUstor project for a settlement contribution by SBM to the Yme Licensee, including termination of the existing agreements hereunder releasing SBM from its delivery obligation related to fabrication and lease of production facilities to be applied at the Yme field, terminating arbitration proceedings and decommissioning of the Yme MOPU. As part of this settlement the parties agreed in that if SBM were to receive any future claim recoveries under its CAR insurance relating to the Yme project, an amount equal to 50% of SBM's net recovery (after deductions for expenses and legal costs) shall be paid by SBM to the Yme partners.

On 10 September 2018 SBM announced full and final settlement of its insurance claim related to the Yme project, after partial settlements had previous been announced by SBM on 17 July 2017, 11 August 2017 and 9 August 2018. NOK 115 million represents OKEA's estimated share of this settlement. In February 2019, the partners agreed on the expenses and legal costs to be deducted. The final amount received is approximately NOK 20 million higher and will be recognized in operating income in Q1-2019.

Other operating income:

Amounts in NOK `000	2018	2017
Gain from put options, oil	37 212	-
Change in over-/underlift petroleum products	44 421	5 007
Sale of licenses *	7 114	-
Total other operating income	**88 747**	**5 007**

* In 2018 OKEA completed the sale of a 15% interest in PL038D Grevling to Chrysaor. Effective date for the transaction was 1 January 2018.

Note 27. Spareparts, equipment and inventory

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

Note 28. Other non-current assets

Amounts in NOK `000	31.12.2018	31.12.2017
Other financial non-current assets at 1 January	-	-
Additions through business combination	2 745 999	-
Unwinding of discount	8 238	-
Total Other non-current assets at 31 December	**2 754 237**	**-**

The amount consist of a receivable from seller Shell. The parties have agreed that Shell should cover 80% of the costs of decommissioning the acquired oilfields Draugen and Gjøa limited to an agreed cap. The net present value of the receivable is calculated using a discount rate of 3.6%. The basis for the measurement of the asset is one the same basis as the assets retirement obligation.

Note 29. Earnings per share

	2018	2017
Net profit / loss (-), in NOK `000	-148 622	-11 714
Calculated interest on preference capital (8%), in NOK `000	-5 011	-34 097
Calculated net profit / loss (-) attributable to ordinary shares, in NOK `000	-153 633	-45 810
Weighted average number of ordinary shares outstanding	3 914 455	1 438 316
Earnings per share (NOK per share)		
- Basic	-39,25	-31,85
- Diluted	-39,25	-31,85

The dilution effect of potentially shares from warrants is not presented in the income statement, as the potentially shares would have reduced loss per share.

Note 30. Reserves (unaudited)

Proven and probable reserves	**Mill barrels oil equivalents (mmboe)**	
	2018	**2017**
Balance at 1 January	10,6	7,5
Production	-0,9	-0,1
Acquisition of reserves	42,8	3,3
New developments	0,1	-
Revisions of previous estimates and other changes	-0,1	-0,0
Total reserves at 31 December	**52,4**	**10,6**

Expected reserves represent the Company's share of reserves according to the SPE/ WPC/ AAPG/ SPEE Petroleum Resources Management system (SPE - PRMS) published in 2007 and with Oslo Stock Exchange's requirements for the disclosure of hydrocarbon reserves and contingent resources; circular 9/ 2009. The figures represent best estimate of proven and probable reserves (2P/P50 Base estimate).

Note 31. Events after the balance sheet date

Based on events subsequent to year end, the Company has been notified that the Yme compensation amount will be higher than the accrued amount at year end, since the parties have reached an agreement on the expenses to be deducted from the settlement. See note 26. The difference, approximately NOK 20 million, will be recognised in operating income in Q1-2019.

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

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

Confirmation from the Board of Directors and CEO of OKEA AS

Pursuant to the Norwegian Securities Trading Act section 5-5 with pertaining regulations, we confirm that, to the best of our knowledge, the financial statements for the period from 1 January to 31 December 2018 have been prepared in accordance with IFRS as adopted by EU, with such additional information as required by the Norwegian Accounting Act, and give a true and fair view of the Company's assets, liabilities, financial position and results of operations.

We confirm that the Board of Directors' report provides a true and fair view of the development and performance of the business and the position of the Company, together with a description of the key risks and uncertainty factors that the company is facing.

Trondheim, 20 March 2019

Chaiwat Kovavisarach
Chairman of the Board

Henrik Schröder
Deputy Chairman of the Board

Arild Christian Selvig
Board Member

Paul Anthony Murray
Board Member

Kaare Gisvold
Board Member

Knud Hans Nørve
Board Member

Michael William Fischer
Board Member

Prisana Praharnkhasuk
Board Member

Erik Haugane
CEO

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To the General Meeting of OKEA AS

Independent auditor's report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of OKEA AS, which comprise the statement of financial position as at 31 December 2018, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements are prepared in accordance with law and regulations and give a true and fair view of the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the Key Audit Matter
Acquisition of license interests in the Draugen and Gjøa fields, and accounting for business combination	
On 30 November 2018 the Company completed the acquisition of a 44.56% working interest in Draugen (PL093), a 12% working interest in Gjøa (PL153) and the office building "Råket" in Kristiansund from A/S Norske Shell. As part of the transaction, 153 employees were transferred from A/S Norske Shell to OKEA AS. Under the Sale & Purchase agreement (SPA) between A/S Norske Shell and	We obtained and read the SPA between the Company and A/S Norske Shell, and held meetings with management to understand the nature and details of the transaction. Management engaged an external valuation expert to prepare a purchase price allocation (PPA) showing the estimated fair value of assets and liabilities acquired in the transaction. We obtained a copy of the PPA, considered the methodology applied, the completeness of assets and liabilities included and tested the mathematical accuracy. We found the methodology to be in line with requirements in IFRS, and that the model makes calculations as expected.

OKEA, the economic date of the transaction was 1 January 2018, and the acquisition date for accounting purposes (transfer of control) was determined to be 30 November 2018.

The agreed purchase price was NOK 4 520 million and is adjusted for revenue, operating and capital expenditures in the interim period from 1 January - 30 November 2018 ("the interim period") and working capital as of 1 January 2018.

The transaction was determined to constitute a business combination and has been accounted for using the acquisition method of accounting under IFRS 3.

The purchase price allocation (PPA) and the measurement and determination of fair values required a number of estimates and judgements to be applied including:

- estimates of oil and gas reserves and forecasted production profiles;
- price curves for oil and gas and related petroleum products;
- forecasted operating, capital, abandonment and tax expenditures;
- determination of adjustments relating to the interim period;
- estimated future foreign exchange rates;
- discount rates to be applied and;
- allocation of goodwill balances to cash generating units.

In addition, the calculation of fair values requires financial modelling of the cash flows relating to each asset or liability, including tax effects, which can be complex and may require use of additional judgement.

We focused on this area due to the significant value the investment represent in the balance sheet, and the level of

We challenged the purchase price allocation prepared by management and if there were other assets or liabilities not properly accounted for. As part of this process we held several meetings with management and the external valuation expert and obtained underlying documentation to support calculations and measurements in the PPA.

A major part of the value assumed in the transaction was allocated to tangible fixed assets of the Draugen and Gjøa fields. Management has measured the value of the investment in the Draugen and Gjøa fields based on the income approach, the net present value (NPV) after tax of future estimated cash flows. We have reconciled the estimated future cash flows related to production profiles, operating and capital expenditures to the operators revised national budgets (RNB). In addition, management has applied a third party reserves appraiser to estimate the remaining reserves. For future crude and gas prices, we assessed the five first years to quoted market prices and the long term price to analyst and brokers forecast. Prices are adjusted for quality differentials. We assessed the discount rate applied with reference to market data. Furthermore, we reconciled estimated future foreign exchange rates with external quoted forward curves obtained from Bloomberg.

The liabilities assumed in the transaction mainly relates to asset retirement obligations. We have reconciled management estimates for asset retirement obligations against information reported by the field operator in the 2019 RNB numbers and tested for mathematical accuracy. As regulated by the SPA, a material part of the asset retirement obligation will remain with and be paid by A/S Norske Shell limited to an agreed cap. We tested the calculation of this receivable (indemnification asset) recorded in the PPA to the terms of the SPA.

We obtained from management a calculation of deferred and payable taxes as part of the business combination. We tested the mathematical accuracy of the tax calculation and the assumptions and examined the application of tax regulations.

The allocated goodwill from the transaction mainly relates to technical goodwill calculated on the basis of the difference between the estimated fair market value and tax value of the assets acquired. We have recalculated and mathematically verified the allocation of goodwill balances to cash generating units.

judgements management was required to use in determining the value of the assets and liabilities acquired from the transaction and resulting subsequent potential impacts on the income statement.

Please refer to note 25 for a description of the business combination and how management has accounted for the PPA.

The consideration paid is adjusted for revenue, operating and capital expenditures incurred in the interim period and for working capital as of 1 January 2018. The interim period adjustment is material and due to complexity of the transaction the settlement between the Company and A/S Norske Shell for the interim period is not final. We have reconciled items included in the interim period adjustment to the preliminary completion statement prepared by the seller, and tested management estimates against supporting documentation.

We involved PwC valuation specialists to assess material market participant assumptions made by management and applied in the valuation of assets and liabilities as well as the mathematical and methodological integrity of management's valuation models.

The results of our testing showed that management applied reasonable assumptions for the valuation of assets and liabilities assumed as part of the transaction with A/S Norske Shell.

We evaluated the appropriateness of the related note disclosures in note 25 to the financial statements and found that they satisfied IFRS requirements.

Other information

Management is responsible for the other information. The other information comprises information in the annual report, except the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (management) are responsible for the preparation in accordance with law and regulations, including fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and in the statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements, the going concern assumption and the proposed allocation of the result is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements *(ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the Company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Stavanger, 20 March 2019
PricewaterhouseCoopers AS

Gunnar Slettebø
State Authorised Public Accountant

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

OKEA AS

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