PETROLIA NOCO AS

Annual report 2018

DIRECTORS' REPORT 2018

PETROLIA NOCO AS

Nature of Business and Business Locations
Petrolia NOCO AS was incorporated on 3rd June 2011.

Petrolia NOCO AS is registered in Bergen and operates out of Bergen and Oslo.

The Ministry of Petroleum and Energy approved Petrolia NOCO AS as a NCS licensee on the 7th of February 2012 and in November 2016 the company was prequalified as an operator on the Norwegian Continental Shelf (NCS).

Petrolia NOCO AS is an Exploration and Production company with the Norwegian Continental Shelf (NCS) as its focus.

Financial Result
Petrolia NOCO AS recorded a net loss in 2018 of NOK 27 345 198 compared to a net loss of NOK 13 469 403 in 2017. The net loss was transferred to retained earnings.

The total equity was NOK 49 646 256 as at 31.12.2018.

Financial Risk
The main financial risk factors for Petrolia NOCO AS are related to fluctuations in oil prices, exchange rates and interest levels and the need of capital funding.

Going concern
Pursuant to the Norwegian Accounting Act section 3-3a, the Board confirms that the requirements of the going concern assumption are met and that the annual accounts have been prepared on that basis. The financial position and the liquidity of the company are considered to be satisfactory in relation to planned activity level.

Organisation
Petrolia NOCO AS had 13 full time employees and 3 part time employees as at 31.12.2018. 50% of the company's employees are women. The company pays equal salaries and gives equal compensation for women and men in positions at the same level. The company's board of directors consists of 3 men. Petrolia NOCO AS emphasises equality between the genders and the equal treatment of all employees. Sick leave in 2018 was 1.4% of total work hours. There were no injuries or accidents in 2018.

Health, Safety & Environment
Activities related to exploration, development and production of oil and gas may cause emissions to the sea and air. The operations were in accordance with all regulatory requirements in 2018.

Petrolia NOCO AS confirms that the annual statement of accounts for 2018 in our best conviction has been prepared in accordance with the prevailing accounting standards, and that the information gives a true picture of the business and corporations assets, debt, financial position and results as a whole.

Petrolia NOCO AS has continued to develop its portfolio on the Norwegian Continental Shelf. The company will continue to explore creative ideas and new technologies in the search for new discoveries and pursue value creating opportunities.

The Board confirms that the going concern assumption is valid and the financial statements have been prepared on a going concern basis.

Bergen, 29 May 2019

Robert John Arnott
Executive Chairman of the Board

Brede Bjøvad Larsen
Board Member

Sjur Storaas
Board Member

Vidar Bergo Larsen
Chief Executive Officer

INCOME STATEMENT

(Amounts in NOK)	Note	2018	2017
Operating income		769,398	2,282,895
Production cost		-3,542	-
Exploration expenses	4	-44,295,009	-18,926,830
Payroll and related cost	5	-15,856,157	-24,490,687
Depreciation and amortisation	10	-581,266	-387,778
Other operating expenses	6	-12,956,624	-10,765,667
Operating profit (loss)		**-72,923,201**	**-52,288,067**
Finance income	7	182,735	148,365
Finance costs	7	-3,231,045	-1,949,635
Net financial items		**-3,048,311**	**-1,801,270**
Profit (loss) before income tax		**-75,971,511**	**-54,089,336**
Calculated refund tax value of exploration costs		55,232,036	38,247,588
Change deferred tax		-6,605,723	2,372,345
Net Income tax credit	8	**48,626,313**	**40,619,933**
Profit (loss) for the year		**-27,345,198**	**-13,469,403**

STATEMENT OF COMPREHENSIVE INCOME

(Amounts in NOK)	Note	2018	2017
Profit (loss) for the year		-27,345,198	-13,469,403
Other comprehensive income, net of tax:		-	-
Total other comprehensive income, net of tax		**-**	**-**
Total comprehensive income for the year		**-27,345,198**	**-13,469,403**
Earnings per share	15		
Basic, profit for the year attributable to ordinary equity holders of the parent		-28.22	-17.51
Diluted, profit for the year attributable to ordinary equity holders of the parent		-28.22	-17.51

Petrolia NOCO AS

BALANCE SHEET

(Amounts in NOK)	Note	31/12/2018	31/12/2017
ASSETS			
Non-current assets			
Exploration and evaluation assets	9	-	-
Deferred tax asset	8	23,583,356	27,108,883
Property, plant and equipment	10	4,004,463	261,393
Intangible asset	10	-	-
Other financial assets		-	-
Total non-current assets		**27,587,819**	**27,370,276**
Current assets			
Inventory	11	7,177,578	-
Receivables, related parties	18	72,362	624,069
Prepayments and other receivables	12	8,087,178	3,560,662
Tax receivable refund tax value exploration expenses	8	55,154,037	38,997,277
Cash and cash equivalents	13	35,958,410	2,477,357
Total current assets		**106,449,566**	**45,659,365**
Total assets		**134,037,384**	**73,029,641**
EQUITY AND LIABILITIES			
Equity			
Share capital	14	121,487,072	86,136,848
Uncovered loss		-71,840,816	-44,495,618
Total equity		**49,646,256**	**41,641,230**
Liabilities			
Decommissioning provision	19	3,000,000	-
Borrowings	18	64,000,000	23,500,000
Total non-current liabilities		**67,000,000**	**23,500,000**
Current liabilities			
Trade creditors	16	11,698,129	1,802,101
Other current liabilities	17	5,692,999	6,086,310
Total current liabilities		**17,391,128**	**7,888,410**
Total liabilities		**84,391,128**	**31,388,410**
Total equity and liabilities		**134,037,384**	**73,029,641**

Bergen, 29 May 2019

Robert John Arnott
Chairman of the Board

Brede Bjøvad Larsen
Board Member

Sjur Storaas
Board Member

Vidar Bergo Larsen
Chief Executive Officer

STATEMENT OF CHANGES IN EQUITY

(Amounts in NOK)	Share capital	Premium paid-in capital	Uncovered loss	Total equity
Equity at 1st of January 2017	86,136,848	-	-31,026,214	55,110,634
Profit (loss) for the year			-13,469,403	-13,469,403
Other comprehensive income for the year			-	-
Total comprehensive income for the year			-13,469,403	-13,469,403
Shares issued in 2017	-	-		-
Equity at 31st of December 2017	**86,136,848**	**-**	**-44,495,617**	**41,641,231**
Equity at 1st of January 2018	86,136,848	-	-44,495,617	41,641,231
Profit (loss) for the year			-27,345,198	-27,345,198
Other comprehensive income for the year			-	-
Total comprehensive income for the year			-27,345,198	-27,345,198
Shares issued in 2018	35,350,224	-		35,350,224
Equity at 31st of December 2018	**121,487,072**	**-**	**-71,840,816**	**49,646,256**

CASH FLOW STATEMENT

(Amounts in NOK)	**Note**	**2018**	**2017**
Cash flow from operating activities			
Profit (loss) before income tax		-75,971,511	-54,089,336
Adjustments:			
Tax refunded	8	39,075,276	28,102,002
Depreciation and amortisation	10	581,266	387,778
Changes in trade creditors		9,896,029	-2,306,603
Changes in other accruals		-3,815,698	584,758
Net cash flow from operating activities		-30,234,638	-27,321,401
Cash flow from investing activities			
Investment in exploration and evaluation assets		0	0
Purchase of property, plant and equipment	10,23	-12,686,239	-112,506
Net cash flow from investing activities		-12,686,239	-112,506
Cash flow from financing activities			
Funds drawn non-current borrowings		41,500,000	0
Repayments of current borrowings		-1,000,000	-6,500,000
Net proceeds/payments from borrowings, related party	18	551,706	327,569
Proceeds from share issues		35,350,224	0
Net cash flow from financing activities		76,401,930	-6,172,432
Net change in cash and cash equivalents		**33,481,053**	**-33,606,339**
Cash and cash equivalents at 1st January		2,477,358	36,083,697
Cash and cash equivalents at 31st of December		**35,958,410**	**2,477,358**

Note 1. General information

The Financial statements of Petrolia NOCO AS for 2018 were approved by the board of directors and CEO on 29 May 2019.

Petrolia NOCO AS is a private limited company incorporated and domiciled in Norway, with its main office in Bergen. The company was incorporated 3 June 2011.

The company's business segments are (i) exploration for and (ii) production of oil and gas on the Norwegian continental shelf.

Note 2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Basis for 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 on a historical cost basis and on a going concern assumption.

Business combinations and acquisition of non-controlling interests

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Contingent consideration, resulting from business combinations, is valued at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognised in the statement of profit or loss in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of the amount that would be recognised in accordance with the requirements for provisions in IAS 37 Provisions, Contingent Liabilities and Contingent Assets or the amount initially recognised less (when appropriate) cumulative amortisation recognised in accordance with the requirements for revenue recognition.

Foreign currency

Functional currency and presentation currency
The company's functional and presentation currency is Norwegian kroner (NOK).

Transactions in foreign currency
Foreign currency transactions are translated into NOK using the exchange rates at the transaction date. Monetary balances in foreign currencies are translated into NOK at the exchange rates on the date of the balance sheet. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Property, plant and equipment including Oil and Gas Properties

Property, plant and equipment 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 over the assets expected useful life and adjusted for any impairment charges. Expected useful lives of long-lived assets are reviewed annually and where they differ from previous estimates, depreciation periods are changed accordingly.

Property, plant and equipment are reviewed for potential impairment whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount.

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 including estimated future investments. Any changes in the reserves estimate that affect unit-of-production calculations, are accounted for prospectively over the revised remaining reserves.

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 licenses and drilling costs of exploration wells, are expensed as incurred. Costs of acquiring licenses are capitalised as intangible assets.

Drilling cost for exploration wells are temporarily capitalised pending the evaluation of potential discoveries of oil and gas reserves. If no reserves are discovered, or if recovery of the reserves is not considered technically or commercially viable, expenses relating to the drilling of exploration wells are charged to income statement. Such costs can remain capitalised for more than one year. The main criteria are that there must be definite plans for future drilling in the licence or that a development decision is expected in the near future.

Leases (as lessee)

Financial leases
Leases where the company assumes most of the risk and rewards of ownership, are classified as financial leases. The company does not have any such leases.

Operating leases
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.

Financial assets and financial liabilities
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i) Financial assets

Initial recognition and measurement
Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss. 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. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component are measured at the transaction price determined under IFRS 15. In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Subsequent measurement
For purposes of subsequent measurement, financial assets are classified in four categories:
- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

Financial assets at amortised cost (debt instruments)
This category is the most relevant to the Company. The Company measures financial assets at amortised 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 amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Company’s financial assets at amortised cost includes trade receivables.

Financial assets at fair value through OCI (debt instruments)

The Company measures debt instruments at fair value through OCI if both of the following conditions are met:

- the financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; 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.

Debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

The Company does not have any debt instruments at fair value through OCI.

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrumentby-instrument basis. Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Company does not have equity instruments designated at fair value through OCI.

Financial assets at fair value through profit or 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 with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch. 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 recognised in the statement of profit or loss.

The Company does not have assets at fair value through profit or loss.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a Company of similar financial assets) is primarily derecognised (i.e., removed from the Company’s statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment of financial assets

Further disclosures relating to impairment of financial assets are also provided in the following notes:

- Critical accounting judgements, estimates and assumptions (Note 3)
- Financial risk management, Credit risk (Note 3)

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).
For trade receivables, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

ii) Financial liabilities

Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, loans and borrowings.

Subsequent measurement
The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.
Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied.

The Company has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings
This is the category most relevant to the Company. After initial recognition, interestbearing loans are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss. This category generally applies to Borrowings. For more information, refer to Note 18.

Derecognition
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

iii) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts as they are considered an integral part of the Group's cash management.

Taxes

Income taxes for the period comprise tax payable, refundable tax from refund tax value of exploration expenses and changes in deferred tax.

Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are calculated on the basis of existing temporary differences between the carrying amounts of assets and liabilities in the financial statement and their tax bases, together with tax losses carried forward at the balance sheet date. Deferred tax assets and liabilities are calculated based on the tax rates and tax legislation that are expected to exist when the assets are realised or the liabilities are settled, based on the tax rates and tax legislation that have been enacted or substantially enacted on the balance sheet date. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that is no longer probable that the deferred tax asset can be utilised. Deferred tax assets and liabilities are not discounted. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Uplift
Uplift is a special allowance in the basis for petroleum surtax in Norway. The uplift is computed on the basis of the original capitalised cost of offshore production installations, and amount to 5.3% of the investment per year (changed to 5.2% from 1 January 2019). The uplift may be deducted from taxable income for a period of four years (i.e. totals 21.6% over four years), starting in the year in which the capital expenditures are incurred. Uplift benefit is recorded when the deduction is included in the current year tax return and impacts taxes payable. Unused uplift may be carried forward indefinitely.

Provisions and Contingent Liabilities

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 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.

Contingent liabilities are not recognised apart from contingent liabilities which are acquired through a business combination. Significant contingent liabilities are disclosed, with the exception of contingent liabilities where the probability of the liability occurring is remote.

Asset Retirement Obligations
The Company recognises the estimated fair value of asset retirement obligations in the period in which it is incurred.

The amount recognised is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. This cost includes the cost of dismantlement or removal of oil and gas installations. The present value of the obligations is recognised when the assets are constructed and ready for production, or at the later date when the obligation is incurred.

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 are not recognised in the financial statements. Significant contingent liabilities are disclosed, with the exception of contingent liabilities where the probability of the liability occurring is remote.

Segment reporting

The company’s business segments are (i) exploration for and (ii) production of oil and gas on the Norwegian continental shelf. Late in 2018 the Company purchased it’s first producing asset, Refer to note 24.No revenues are reported in 2018 and therefore no segment note is presented. This is in accordance with management’s reporting.

Cost of equity transactions

Transaction costs directly linked to an equity transaction are recognised directly in equity, net after deducting tax.

Revenue recognition

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

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 cash receipt from oil sales is normally within a month of delivery. These sales are also 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.

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

Over-underlift of petroleum products

Due to the physical nature of lifting of oil, it is often more efficient for each licence partner to lift a full tanker-load at a time. Thus, at the balance sheet date, the amount of oil lifted by the Company may differ from its ownership share in the respective field. Oil sales exceeding (falling below) the

Company's ownership share of production is booked as overlift (underlift). Underlift is booked as an asset in the balance sheet as it represents the right to receive additional oil from future production without an obligation to fund the production of that additional oil. Vice versa, overlift is booked as a liability in the balance sheet as it is an obligation to redeliver according to the entity's share of future production. Overlift and underlift on the statement of financial position date are valued at production costs.

Earnings per share

The calculation of basic earnings per share is based on the profit attributable to the owners of ordinary shares of the company using the weighted average number of ordinary shares outstanding during the year after deduction of the average number of treasury shares held over the period.

The calculation of diluted earnings per share is consistent with the calculation of the basic earnings per share, but gives at the same time effect to all dilutive potential ordinary shares that were outstanding during the period, by adjusting the profit/loss and the weighted average number of shares outstanding for the effects of all dilutive potential shares, i.e.:
• The profit/loss for the period is adjusted for changes in profit/loss that would result from the conversion of the dilutive potential ordinary shares.
• The weighted average number of ordinary shares is increased by the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

Cash flow statement

The cash flow statement is prepared by using the indirect method.

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.

Changes in accounting policies and disclosures

New and amended standards and interpretations adopted by the Company

IFRS 15 ("Revenue from Contracts with Customers") – IFRS 15 was issued in May 2014 and amended in April 2016, with earlier adoption permitted and supersedes IAS 18 ("Revenue"), and IAS 11 ("Construction Contracts") and their related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. The standard permits either a full retrospective or a modified retrospective approach for application. IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contact and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures. The Company has applied IFRS 15 using the modified retrospective approach. There is no cumulative effect from initially applying IFRS 15, therefore no adjustment to the opening balance of equity at 1 January 2018 was posted. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not yet completed at this date. The Company elected to apply the modified retrospective approach only to the contracts that were not completed at the date of initial application. The Company did not apply any other practical expedient. There is no impact on the statement of financial position, statement of comprehensive income, statement of equity and statement of cash flows.

IFRS 9 ("Financial Instruments") – IFRS 9 replaces IAS 39 Financial Instruments "Recognition and Measurement", and all previous versions of IFRS 9. IFRS 9 is bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge

accounting. The Company applied IFRS 9 retrospectively, with an initial application date of 1 January 2018. The Company has not restated the comparative information, which continues to be reported under IAS 39. There were no differences arising from the adoption of IFRS 9.
The Company continues measuring at fair value all financial assets currently held at fair value. Loans and trade and other receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Company concluded that the contractual cash flow characteristics of these instruments meet the criteria for amortised cost measurement under IFRS 9 therefore reclassification for these instruments is not required.

There is no impact on the Company's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Company does not have any such liabilities.

The table below summarises the adoption of IFRS 9 by financial instruments:

	Measurement category		Carrying amount at transition date (1 January 2018)	
	Previous (IAS 39)	New (IFRS 9)	Previous (IAS 39)	New (IFRS 9)
Prepayments and other receivables	Loans and receivables (amortised cost)	Amortised cost	3,560,662	3,560,662
Receivables, related parties	Loans and receivables (amortised cost)	Amortised cost	624,069	624,069
Tax receivable refund tax value exploration expenses	Loans and receivables (amortised cost)	Amortised cost	38,997,277	38,997,277
Cash and cash equivalents	Cash (amortised cost)	Cash (amortised cost)	2,477,357	2,477,357
Total financial assets			**45,659,365**	**45,659,365**
Borrowings	Other financial liabilities at amortised cost	Other financial liabilities at amortised cost	23,500,000	23,500,000
Trade and other liabilities	Other financial liabilities at amortised cost	Other financial liabilities at amortised cost	7,888,410	7,888,410
Total financial liabilities			**31,388,410**	**31,388,410**

b) Impairment
The adoption of IFRS 9 has changed the Company's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking ECL approach. IFRS 9 requires the Company to recognise an allowance for ECLs for all debt instruments not held at fair value through profit or loss. In relation to cash at bank and trade receivables, in order to calculate the ECL, the Company applied the 12-month ECL model and the general approach and concluded that the ECL is not material.

New and amended standards and interpretations issued but not adopted by the Company

At the end of the reporting year, the following Standards and Interpretations which are relevant to the Company's operations were in issue but not yet effective. The Company does not intend to adopt any standard, interpretation or amendment that has been issued but is not yet effective before their effective date. Management anticipates that the adoption of all other Standards and Interpretations in future years will have no significant impact on the results and financial position presented in these financial statements except for the adoption of IFRS 16 "(Leases"). The Company is currently assessing the impact from the application of IFRS 16 on its financial statements.

(i) Issued by the IASB and adopted by the European Union
IFRS 9 (''Financial Instruments'') – "Amendments for prepayment features with negative compensation and modifications of financial liabilities" (effective for annual periods beginning on or after 1 January 2019).
IFRS 16 ("Leases") – IFRS 16 was issued in January 2016 and it replaces IAS 17 ("Leases"), IFRIC 4 ("Determining whether an Arrangement contains a Lease"), SIC-15 ("Operating Leases-Incentives") and SIC-27 ("Evaluating the Substance of Transactions Involving the Legal Form of a Lease"). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the commencement of the lease and a lease liability representing its obligation to make lease payments. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows applying IAS 7 Statement of Cash Flows. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Therefore, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The standard permits either a full retrospective or a modified retrospective approach for application. The Company will adopt IFRS 16 using the modified retrospective approach, which presumes recognition of the cumulative effect of initial application at the date of the initial application i.e. 1 January 2019. The Company will also elect to apply the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Company is in the process of assessing the transition impact to IFRS 16 on 1 January 2019. After transition, operating profit will improve, while depreciation and interest expense will increase. The Company expects that the impact on the income statement will not be material. As IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, the Company does not expect any significant impact on the financial statements in respect of recognition of the Company's activities as a lessor.

IFRS 3 (''Business Combinations") – "Amendments to clarify the definition of a business" (effective for annual periods beginning on or after 1 January 2020).
IAS 28 (''Investments in Associates and Joint Ventures'') – "Amendments in relation to long term interests in associates and joint ventures" (effective for annual periods beginning on or after 1 January 2019).
IFRIC 23 ("Uncertainty over Income Tax Treatment") – The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- How an entity considers changes in facts and circumstances.

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Company will apply the Interpretation from its effective date. The Company does not expect the interpretation to have a material impact on the financial statements.

IAS 19 ("Employee benefits") – The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting year. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting year, an entity is required to:

- Determine current service cost for the remainder of the year after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined

benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event;
- Determine net interest for the remainder of the year after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income. The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Company.

Annual Improvements to IFRSs 2015–2017 Cycle

The "December 2017 Annual Improvements to IFRSs" is a collection of amendments to IFRSs in response to four standards. These improvements are effective from 1 January 2019. It includes the following amendments:
- IFRS 3 – Business Combinations (remeasurement of previously held interest);
- IFRS 11 – Joint Arrangements (re-measurement of previously held interest);
- IAS 12 – Income Taxes (income tax consequences on dividends); and
- IAS 23 – Borrowing Costs (borrowing costs eligible for capitalisation).

(ii) Issued by the IASB but not yet adopted by the European Union

IFRS 10 (" Financial Statements") and IAS 28 ("Investments in Associates and Joint Ventures") – "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture". The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively.

IAS 1 (''Presentation of Financial Statements and IAS 8 (''Accounting Policies, Changes in Accounting Estimates and Errors") – "Amendments regarding the definition of material" (effective for annual periods beginning on or after 1 January 2020).

Note 3. Financial risk management

Financial risks

Exploration for oil and gas involves a high degree of risk, and the company is subject to the general risk factors pertaining to this business, such as (i) volatility of oil and gas prices, (ii) uncertainty pertaining to estimated oil and gas reserves, (iii) operational risk related to oil and gas exploration and (iv) volatility in exchange rates. Furthermore, only few prospects that are explored are ultimately developed into production.

Furthermore, the company is exposed to certain types of financial risks. Management involves receivables, loans, accounts payable and drawing rights to financial institutions. The business activities of the company involve exposure to credit risk, interest rate risk, liquidity risk and currency risk.

Critical accounting estimates and judgements

The preparation of the financial statements in accordance with IFRS requires management to make judgements, use estimates and assumptions that affect the reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are considered to be reasonable under the circumstances. The estimates and underlying assumptions are reviewed on an ongoing basis.

Estimates and assumptions which represent a considerable risk for material changes in carrying amounts of assets and liabilities during the next fiscal year, are presented below.

- *Tax receivable from refund tax value exploration expenses:*
  The Norwegian taxation authorities may have a different understanding than the Company regarding the definition of exploration expenses according to the Norwegian Petroleum Tax Act. See note 8.
- *Reserves:*
  The cost of Fields in production is amortised using the unit of production method. A change in the estimated reseves can materially affect the amortisation and/or trigger an impairment. Estimating Reserves is based on several uncertain factors.

Critical judgements in applying the company's accounting policies

Management has made judgements also in the process of applying the company's accounting policies. Such judgements with the most significant effect on the amounts recognised in the financial statements are presented in the following:

Accounting policy for exploration expenses:
The Company uses the successful efforts method to account for exploration costs. All exploration costs, with the exception of acquisition costs of licenses and drilling costs of exploration wells, are expensed as incurred.

- *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.

Note 4. Exploration Expenses

(Amounts in NOK)	**2018**	**2017**
Share of exploration expenses from participation in licences	17,242,269	10,546,828
Other direct seismic costs and field evaluation	25,989,341	7,280,864
Other exploration expenses	1,063,399	1,099,138
Total exploration expenses	**44,295,009**	**18,926,830**

Note 5. Payroll and related cost

(Amounts in NOK)	**2018**	**2017**
Salaries	17,122,221	19,001,343
Payroll tax	2,697,348	3,012,428
Pension costs	1,568,033	1,903,856
Other employee related expenses	623,655	573,060
Invoiced to operated licenses	-6,155,100	0
Total	**15,856,157**	**24,490,687**
Number of FTS's	15	17

Remuneration to board of directors and management:

See information in Note 18 "Related parties" regarding remuneration of key management.

Pensions

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

Note 6. Other operating expenses

Other operating expenses include:

(Amounts in NOK)	**2018**	**2017**
Rental costs	1,761,362	2,613,311
Office costs	1,109,457	1,431,755
It costs	459,461	494,717
Accounting-, audit- and legal services	1,167,153	1,023,769
Consulting services	5,852,709	3,310,828
Consulting services, related party	345,344	625,622
Travel costs	828,350	577,336
Other costs	1,432,788	688,330
Total	**12,956,624**	**10,765,667**

1) Fees includes payments to related parties. See note 18 for further information.

Remuneration to auditor is allocated as specified below:

(Amounts in NOK)	**2018**	**2017**
Statutory audit	180,000	180,000
Audit-related services	0	0
Other assistance	0	0
Total, excl. VAT	180,000	180,000

Note 7. Finance income and costs

Finance income:

(Amounts in NOK)	**2018**	**2017**
Interest income	182,735	148,365
Total finance income	**182,735**	**148,365**

Finance costs:

(Amounts in NOK)	**2018**	**2017**
Interest expense, related party	2,571,667	1,888,167
Net foreign exchange effects	519,663	3,633
Other finance costs	139,715	57,835
Total finance costs	**3,231,045**	**1,949,635**

Note 8. Tax

Specification of income tax:

(Amounts in NOK)	**2018**	**2017**
Tax value of eligible exploration costs	55,154,037	38,997,277
Changes in deferred tax	-6,605,723	2,372,345
Adjustment for tax earlier years	77,999	-749,689
Total income tax credit	**48,626,313**	**40,619,933**

Tax refund on the Norwegian Continental Shelf

Companies operating on the Norwegian Continental Shelf (NCS) was in 2018 subject to a 55% special oil taxation in addition to the ordinary 23% corporate tax. Companies that are not in a taxable position can claim a 78% refund on exploration costs on the NCS. This refund is normally payable in November the following year.

This tax refund totals NOK 55 154 thousand for 2018 (2017: NOK 38 997 thousand). Tax loss carried forward (offshore) may be utilized against a possible future taxable income (offshore).

Alternatively, the tax value of loss carry forwards connected to operations on the NCS will be received in the event of a possible termination of the business. Deferred tax effect has been capitalised to the extent future realisation is deemed probable.

Effective from 1 January 2019, the special tax rate changed from 55% to 56%, while the corporate tax rate changed from 23% to 22%. The total tax rate is unchanged (78%).

Deferred tax assets at 31.12.18 are calculated using the tax rates effective from 1 January 2019.

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

(Amounts in NOK)	**2018**	**2017**
Property, plant and equipment	4,142,304	1,551,485
Capitalised exploration and license costs	0	0
Decommissioning provision	2,340,000	0
Under-lift measured as fair value in the business combination	-5,903,000	0
Non-current borrowings	0	0
Earned uplift, 56%/55%	492,155	0
Tax loss onshore, 22% / 23%	1,448,476	1,494,827
Tax loss offshore, 22% / 23%	10,018,007	17,130,047
Tax loss offshore, 56% / 55%	12,493,890	8,427,351
Deferred tax liability (-) / tax asset (+)	25,031,831	28,603,710
Not capitalised deferred tax asset (valuation allowance)	-1,448,476	-1,494,827
Deferred tax liability (-) / tax asset (+) in balance	**23,583,356**	**27,108,883**

Deferred tax is calculated based on tax rates applicable on the balance sheet date. Ordinary income tax is 22% from 2019 (reduced from 23% in 2018), to which is added a special tax for oil and gas companies at the rate of 56% from 2019 (increased from 55% in 2018), 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.

Reconciliation of effective tax rate:

(Amounts in NOK)	**2018**	**2017**
Profit (loss) before tax	-75,971,511	-54,089,336
Expected income tax 78%	59,257,779	42,189,682
Adjusted for tax effects (23% - 78%) of the following items:		
Permanent differences	-81,125	-116,830
Taxable income onshore, 23% / 24%	-1,548,463	-994,517
Adjustments previous years	-8,754,068	158,548
Uplift, earned this year	3,937	0
Change in tax rate	-298,098	-656,553
Tax loss onshore, not recognized	46,352	39,601
Total income tax credit	**48,626,313**	**40,619,933**

Note 9. Exploration and evaluation assets

(Amounts in TNOK)	**2018**	**2017**
Cost:		
At 1 January	-	-
Additions	-	-
Disposals	-	-
Cost at 31 December	-	-
Amortisation and impairment losses		
At 1 January	-	-
Amortisation this year	-	-
Impairment this year	-	-
Disposals	-	-
Accumulated amortisation and impairment at 31 December	-	-
Carrying amount at 31 December	**-**	**-**

License portfolio 31 December 2018	**Share**
PL 018C	11.654 %
PL 882	30.0 %
PL 887	20.0 %
PL 933	40.0 %
PL 936	30.0 %
PL 937	30.0 %
PL 948	30.0 %
In addition, the Company has the following licenses, effective from 2 March 2018	
PL 937B	30.0 %
PL 992	30.0 %
PL 994	30.0 %
PL 998	20.0 %
PL 1013	60.0 %

Note 10. Property, plant and equipment

(Amounts in NOK)

	Fields in production	Furniture, fixtures and office machines	Total
2018			
Cost:			
At 1 January 2018	0	9,307,452	9,307,452
Additions	4,261,833	62,503	4,324,336
Disposals		0	0
Cost at 31 December 2018	**4,261,833**	**9,369,955**	**13,631,788**
Depreciation, amortisation and impairment:			
At 1 January 2018	0	9,046,060	9,046,060
Depreciation this year	384,275	196,991	581,266
Impairment this year	0	0	0
Disposals	0	0	0
Accumulated depreciation, amortisation and impairment at 31 December 2018	384,275	9,243,051	9,627,326
Carrying amount at 31 December 2018	**3,877,558**	**126,905**	**4,004,463**
2017			
Cost:			
At 1 January 2017	0	9,194,946	9,194,946
Additions	0	112,506	112,506
Disposals	0	0	0
Cost at 31 December 2017	**0**	**9,307,452**	**9,307,452**
Depreciation, amortisation and impairment:			
At 1 January 2017	0	8,658,282	8,658,282
Depreciation this year	0	387,778	387,778
Impairment this year	0	0	0
Disposals	0	0	0
Accumulated depreciation, amortisation and impairment at 31 December 2017	0	9,046,060	9,046,060
Carrying amount at 31 December 2017	**0**	**261,393**	**261,393**
Economic life		3-5 years	
Depreciation method	Unit of production	linear	

Note 11. Inventory

(Amounts in NOK)	2018	2017
Spareparts	20,584	0
Underlift	7,156,993	0
Total	**7,177,578**	**0**

Note 12. Prepayments and other receivables

Prepayments and other receivables include:

(Amounts in NOK)	**2018**	**2017**
Prepaid expenses	1,909,144	518,287
VAT receivables	941,820	236,380
Working capital and overcall, joint venture	3,434,797	1,952,857
Other short term receivables	1,801,418	853,138
Total	**8,087,178**	**3,560,662**

Note 13. Cash and cash equivalents

(Amounts in NOK)	**2018**	**2017**
Bank deposits	35,958,410	2,477,357
Total cash and cash equivalents	**35,958,410**	**2,477,357**
Of this:		
Restricted cash for withheld taxes from employees salaries	1,030,773	1,007,783

Note 14. Share capital and shareholder information

Movements in share capital

(Amounts in NOK)	**Number of shares**	**Share capital**
Issued at 1 January 2017	769,079	86,136,848
Capital increase in 2017	-	-
End balance at 31 December 2017	**769,079**	**86,136,848**
Capital increase in 2018	315,627	35,350,224
End balance at 31 December 2018	**1,084,706**	**121,487,072**

The share capital is denominated in NOK, and the nominal value per share as of 31 December 2018 was NOK 112. All issued shares are of equal rights. No potential shares, such as share options, were issued as of 31 December 2018.

Shareholders as of 31 December 2018	**Shares**	**Ownership**
Petrolia Drilling II AS	380,265	35.06%
Independent Oil & Resources Plc	265,000	24.43%
NOCO (UK) Ltd	221,808	20.45%
Petrolia SE	161,000	14.84%
Larsen Oil & Gas AS	44,782	4.13%
Tokala AS	5,766	0.53%
Jon Hansteveit	1,215	0.11%
Serious AS	1,134	0.10%
Equivest AS	892	0.08%
Forland Holding AS	750	0.07%
Other	2,094	0.19%
Total number of shares	1,084,706	100%

Note 15. Earnings per share

Amounts in NOK	**2018**	**2017**
Profit attributable to ordinary equity holders	-27,345,198	-13,469,403
Profit attributable to ordinary equity holders for basic earnings	-27,345,198	-13,469,403
Interest on convertible preference shares	-	-
Profit attributable to ordinary equity holders adjustedfor the effect of dilution	-27,345,198	-13,469,403

Number of shares:	**2018**	**2017**
Weighted average number of ordinary shares for basic EPS	968,832	769,079
Effects of dilution from:		
Share options	-	-
Convertible preference shares	-	-
Weighted average number of ordinary shares adjusted for the effect of dilution	968,832	769,079

As Petrolia NOCO AS does not have any share options or convertible preference shares as of 31 December 2018, there are no differences between basic and diluted EPS.

Note 16. Financial instruments

Financial instruments by category
(Amounts in NOK)

At 31 December 2018

Financial assets	**Loans and receivables**	**Total carrying amount**
Other financial assets, deposits	0	0
Receivables, related parties	72,362	72,362
Other receivables [1)]	60,390,252	60,390,252
Cash and cash equivalents	35,958,410	35,958,410
Total	**96,421,024**	**96,421,024**

[1)] Prepayments and VAT receivables are not included.

Financial liabilities	**Amortised cost**	**Total carrying amount**
Borrowings	64,000,000	64,000,000
Trade creditors	11,698,129	11,698,129
Other current liabilities [1)]	3,738,387	3,738,387
Total	**79,436,517**	**79,436,517**

[1)] Public duties payable and accruals are not included.

At 31 December 2017

Financial assets	Loans and receivables	Total carrying amount
Receivables, related parties	624,069	624,069
Other receivables [1)]	40,950,134	40,950,134
Cash and cash equivalents	2,477,357	2,477,357
Total	**44,051,560**	**44,051,560**

[1)] Prepayments and VAT receivables are not included.

Financial liabilities	Amortised cost	Total carrying amount
Borrowings	23,500,000	23,500,000
Trade creditors	1,802,101	1,802,101
Other current liabilities [1)]	3,335,025	3,335,025
Total	**28,637,126**	**28,637,126**

[1)] Public duties payable and accruals are not included.

Fair value of financial instruments
It is assessed that the carrying amounts of financial instruments recognised at amortised cost in the financial statements approximate their fair values.

Financial risk management

Overview

The Company has some exposure to risks from its use of financial instruments, including credit risk, liquidity risk, interest rate 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. At the end of this note, information regarding the Company's capital management is provided.

Market risk from financial instruments

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: market risk (e.g. interest rate risk and currency risk), commodity price risk and other price risk. The Company's financial instruments are mainly exposed to interest rate and currency risks.

a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's interest risk arises from long-term borrowings. Borrowings issued at variable rates expose it to cash flow risk. Borrowings issued at fixed rates expose it to fair value interest rate risk.

Interest rate sensitivity

The following table demonstrates the sensitivity to a possible change in interests rates, with all other variables held constant, on the Company's profit before tax:

	Increase/ decrease in basis points	Effects on profit before tax (NOK)	Effects on equity (NOK)
31 December 2018	+/-100	+/- 280 416	+/- 215 920
31 December 2017	+/-100	+/- 210 226	+/- 159 772

Foreign currency risk

b) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is primarily exposed to foreign exchange risk arising from various currency exposures with respect to the USD, EUR and GBP in relation to its debt obligations as well as from certain commercial transactions.

Credit risk

The carrying amounts of financial assets represents the Company's maximum credit exposure. The counterparty to the cash and cash equivalents and other financial assets are large banks with solid credit ratings. The Company monitors the credit ratings of its main counterparties on a regular basis.

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. Prudent liquidity risk management implies maintaining sufficient cash and the availability of appropriate funding.

The following table details the contractual maturities for the Company's financial liabilities. The tables includes amounts for both principal and interest payments. The contractual amounts were estimated based on closing exchange rate at balance sheet date.

Per 31 December 2018

(Amounts in NOK)	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Total**
Borrowings, long term	640,000	3,200,000	83,200,000	87,040,000
Trade creditors and other short term liabilities	13,249,320	2,187,196	-	15,436,517
Total liabilities	**13,889,320**	**5,387,196**	**83,200,000**	**102,476,517**

Per 31 December 2017

(Amounts in NOK)	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Total**
Borrowings, long term	235,000	1,175,000	30,550,000	31,960,000
Trade creditors and other short term liabilities	2,718,810	2,418,316	-	5,137,126
Total liabilities	**2,953,810**	**3,593,316**	**30,550,000.0**	**37,097,126**

Capital management

A key objective in relation to capital management is to ensure that the Company maintains a sufficient capital structure in order to support its business development and to maintain a strong credit rating. The Company evaluates its capital structure in light of current and projected cash flows, potential new business opportunities and the Company's financial commitments. In order to maintain or adjust the capital structure, the Company may issue new shares or obtain new loans.

Note 17. Other current liabilities

(Amounts in NOK)	**2018**	**2017**
Public duties payable	1,789,362	1,795,085
Salary and vacation payable	1,887,987	2,399,470
Working capital and undercall, joint venture	1,850,400	935,555
Other accruals for incurred costs	165,250	956,200
Total	**5,692,999**	**6,086,310**

Note 18. Related party disclosure

(Amounts in NOK)

a) Purchases from and sales to related parties

Purchase of services, interest on loan and sales to related parties	**Description of services**	**2018**	**2017**
Petrolia NUF	Consulting services, purchase	345,344	625,622
Kver AS	Rent, purchase	349,155	1,096,756
Petrolia Drilling II AS	Interest on loan	2,571,667	1,888,167
Independent Oil Tools AS	Sale of consulting services	399,398	2,277,075
Larsen Oil & Gas AS	Legal consulting services, purchase	223,300	5,820

b) Balances with related parties (trade payables/loan)

Related party	**Description**	**2018**	**2017**
Petrolia Drilling II AS	Interest bearing loan	64,000,000	23,500,000

c) Balances with related parties (receivables)

Related party		**2018**	**2017**
Independent Oil Tools AS,	Receivable, consulting services	72,362	624,069

d) Compensation to key management

NOK thousands	2017			2018		
Position	**Salary/ Board fee**	**Pension**	**Total 2017**	**Salary/ Board fee**	**Pension**	**Total 2018**
Vidar Bergo Larsen, CEO	2,073,665	162,252	2,235,917	2,061,083	162,252	2,223,335
Robert John Arnott, Chairman (1)	-	-	-	-	-	-
Tove Kate Larsen, Chairman (1)	-	-	-	-	-	-
Sjur Storaas, Board member	100,000	-	100,000	100,000	-	100,000
Brede Bjøvad Larsen, Board member	-	-	-	-	-	-

(1) Tove Kate Larsen was the Chairman of the Board up to 1 February 2018, and was then followed by Robert John Arnott as the new Chairman. Mr Arnott has invoiced consulting fees of NOK 2.4 million in 2018.

As at 31 December 2018 there is no agreement of bonus or any other future compensation to the key management.

Loans and guarantees related to key management

The Company has as at 31 December 2018 not issued any loans or guarantees in favour of any employees, members of the Board or the shareholder.

Note 19. Decommissioning provision

Decommissioning provisions:

NOK	Flyndre
Provision at 1 January 2018	**-**
Additions	3,000,000
Changes in Operator's estimate	-
Unwinding of discount	-
Amounts used	-
Unused reversed	-
Currency translation effects	-
Total provisions at 31 December 2018	**3,000,000**

The provision is an estimate based on available information from the Operator. No detailed decommission plan is available yet.

Note 20. Operating leases

The company has no finance leases.

The company has entered into operating leases for office premises, parking, and apartment and IT equipment/software.

The lease costs consist of ordinary lease payments and include:

(Amounts in NOK)	**2018**	**2017**
Lease office premises, parking and apartment	1,683,019	2,523,576
Lease machinery and office furniture	78,344	89,735
Total lease costs	**1,761,362**	**2,613,311**

The future minimum rents related to non-cancellable leases and subleases fall due as follows:

(Amounts in NOK)	**2018**	**2017**
Within 1 year	1,927,246	1,930,396
1 to 5 years	4,088,407	5,701,038
After 5 years	-	271,543
Total	**6,015,653**	**7,902,976**

Note 21. Contingent liabilities

The company has not been involved in any legal or financial disputes in 2018 where adversely outcome is considered more likely than remote.

Note 22. Shares in licenses and obligations

The Company`s obligations for 2018 related to the license portfolio as at year end are estimated to a total of NOK 70 million. This forecast is based on the approved license budgets. In addition, one drilling decision has been made in 2019 with estimated obligation of NOK 155 million. The timing is not decided, but expected to be in 2020.

Note 23. Business combinations

Acquisitions in 2018

Acquisition of a 0.825% interest in Flyndre
On 30 November 2018 the Company completed the acquisition of a 0.825% (11.654% in PL018C) working interest in the Flyndre Unit, a cross border unit with 7.08% Norwegian part and 92.92% UK part. The Company bought 0.471% (6.654% in PL018C) from Equinor Energy AS and 0.354% (5% in PL018C) from Petoro AS.

The acquisition was financed through utilising of the credit facility from Petrolia Drilling II AS.

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 9.8 million. Adjusted for interim period adjustments and working capital, the total cash consideration is estimated to NOK 12.6 million. The Company doesn't expect any changes in the agreed cash consideration.

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	
Deferred tax asset	3,080
Tangible fixed assets	4,213
Underlift	7,043
Net working capital	1,288
Total assets	15,624
Liabilities	
Asset retirement obligation	3,000
Total liabilities	3,000
Total identifiable net assets at fair value	12,624
Total consideration	12,624
Goodwill	0

From the date of acquisition (30 November 2018), the acquired licences contributed with NOK 0 million of operating income and NOK 0 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 1.1 million higher and loss before tax would have been approximately NOK 0.5 million higher.

Note 24. Reserves (un-audited)

The following table reflects the Company's net entitlement proven and probable reserves (after royalty)

Boe	Flyndre	Total reserves
Opening balance 1 January 2018	-	-
Production	-2,032	-2,032
Revisions	-	-
Aqusitions or sales	31,744	31,744
Increased oil recovery	-	-
Discoveries	-	-
31 December 2018	**29,712**	**29,712**
Production	-	-
Revisions	-	-
Aqusitions or sales	-	-
Increased oil recovery	-	-
Discoveries	-	-
31 December 2017	**29,712.0**	**29,712.0**

As in the accounting principles, estimation of oil and gas reserves and resources involves uncertainty. The figures above represent management's best judgment of the most likely quantity of economically recoverable oil and gas estimated at year-end 2018, given the information at the time of reporting. The estimates have a large spread especially for fields for which there is limited data available. The uncertainty will be reduced as more information becomes available through production history and reservoir appraisal. In addition, for fields in the decline phase with limited remaining volumes, fluctuations in oil prices will have a significant impact on the profitability and hence the economic cut-off for production.

Note 25. Events after the balance sheet date

18 January 2019; the Company was awarded five new licences in the 2018 Awards in Predefined Areas (APA) in Norway: 30 per cent of licence PL937B, 30 per cent of licence PL 992, 30 per cent of licence PL994, 20 per cent of licence PL998 and 60 per cent of licence PL1013 (as an operator).

31 January 2019; (i) the company shares were split 1:112 to increase the number of shares. The share capital remained unchanged at NOK 121.5 million, the par value was reduced from NOK 112 per share to NOK 1 per share and the number of shares increased from 1.084.706 to 121.487.072. (ii) the shares were

21 March 2019; the company shares were recorded in VPS, the Norwegian Norwegian Central Securities Depository with ISIN: NO 0010844301.

4 April 2019, INDEPENDENT OIL & RESOURCES PLC (ticker "IOTA" on NOTC) distributed all its 29,680,000 shares as dividend to its shareholders. The number of shareholders increased from 18 to 689.