



*Norwegian Energy Company ASA*  
Second Quarter and Half Year 2019

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## Highlights

- On 31 July 2019, post period end, Noreco completed the acquisition of Shell Olie- og Gasudvinding Danmark B.V. ("SOGU") and became a partner in the Danish Underground Consortium ("DUC").
- On 29 April 2019 it was announced that the Danish Energy Agency had granted its approval for Noreco's (the "Company" or the "Group") acquisition of Shell's Danish upstream assets (the "Transaction").

### **Noreco – a considerable independent E&P company**

After completion of the acquisition of Shell Olie- og Gasudvinding Danmark B.V., Noreco holds a 36.8% non-operated interest in the DUC with assets that comprise 15 fields in four producing hubs; Halfdan, Tyra, Gorm and Dan. DUC is a joint venture between Total (43.2%), Noreco (36.8%), and Nordsøfonden (20.0%). DUC is operated by Total which has extensive offshore experience in the region and worldwide.

## Outlook

- Noreco will continue work to further enhance its reserves and production base and evaluate strategic opportunities both in and above the ground.

## Business development

Noreco increased its reserves and production base significantly following completion of the acquisition of Shell Olie- og Gasudvinding Danmark B.V. ("SOGU"). Included in the Transaction are proven and probable (2P) reserves of 195.3 million barrels of oil equivalent (mmbøe) as per year-end 2018, of which 66% are liquids.

Noreco estimates significant reserves and production growth coming from existing resources (discoveries, EOR, initiatives & new projects), Noreco's H1 2019 estimate of contingent resources is above 100 million barrels (net to Noreco). SOGU's share of production from DUC in the first half of 2019 was 58<sup>1)</sup> thousand barrels of oil equivalent per day (mboepd). Noreco expects to maintain strong production in the years to come and will continue to evaluate strategic opportunities.

1) Source: Danish Energy Agency

## Capital Structure

As part of the Transaction, Noreco issued 15,585,635 new ordinary shares through a private placement and 1,768,648 new ordinary shares through a partially underwritten subsequent offering (which were over-subscribed by 101%), at a subscription price of NOK 185 per share.

Noreco also issued a convertible bond loan in a principal amount of USD 158,138,102 with Nordic Trustee AS as bond trustee, the bond loan was listed on the Oslo Stock Exchange on 9 August 2019 and trades under the ticker "NOR 13". In addition, Noreco raised additional capital through a new seven-year Reserve Based Lending Facility up to USD 900 million with a sub-limit of USD 100 million for letters of credit.

On 9 August 2019, Noreco published a prospectus which had been approved by the Norwegian Financial Supervisory Authority (Nw. Finanstilsynet). The prospectus was related to the listing of the shares in the private placement on the Oslo Stock Exchange, the partly underwritten subsequent offering and listing of the shares as well as listing of the convertible bonds.

For further information please see [www.noreco.com](http://www.noreco.com).

## Group financials

The Noreco group had **revenues** of NOK 9 million in the first half year of 2019 relating to revenue from Lulita compared to NOK 2 million in the first half year of 2018 and NOK 16 million for the year 2018.

**Production expenses** amount to NOK 3 million in the first half year of 2019 compared to NOK 1 million in the first half of 2018.

**Personnel expenses** in first half year of 2019 was NOK 12 million compared to NOK 6 million in the first half of 2018 due to additional headcount and recruitment cost. Total cost for the year 2018 is NOK 19 million.

**Other operating expenses** were NOK 12 million for the first half of 2019, the same as for the first half of 2018. Total operating cost YE 2018 is NOK 156 million. The other operating expenses are mainly related to consulting fees and IT expenses. In 2018 the expenses are mainly related to litigation fees associated with the Transaction, and accrued litigation fees from pursuing the SIRI claim as well as court order legal fees.

**EBITDA** (operating result before depreciation and write-downs) in the first half of 2019 was a loss of NOK 19 million compared to a loss of NOK 18 million for the first half of 2018.

**Net Financial items** amount to an expense of NOK 40 million for the first half of 2019, compared to an expense of NOK 10 million in the first half of 2018. The effect in 2019 is mainly due to currency translation and interest expense on the bond loan.

**Taxes** amount to NOK 0 million for the first half of 2019 compared NOK 0 million for the first half of 2018. The year 2018 ended with an income tax of NOK 0 million. The tax rate represents the weighted average in relation to the results from the various subsidiaries with due consideration to the actual tax position of the individual company. Reference is made to note 7 in the interim financial report for further details to the taxes this period.

**Net result** for the first half of 2019 is a loss of NOK 32 million, compared to a gain of NOK 14 million for the first half of 2018 and a loss of NOK 143 million for the year of 2018.

**Non-current restricted cash** amount to NOK 562 million mainly related to the balance of an escrow account of DKK 433 million set aside for future abandonment cost for Nini/Cecilie. After the settlement agreement with the partners Noreco remains liable for the abandonment obligation, but the liability is in any and all circumstances limited to a maximum amount of DKK 445 million adjusted for accrued interests on the escrow account. The liability corresponding to this escrow account is included in the asset retirement obligation.

**Other current assets** amount to NOK 451 million at the end of the first half of 2019 due to the initial prepayment to Shell of USD 40 million for the acquisition of Shell's Danish upstream assets, the prepayment of fees related to the RBL facility of NOK 79 million and transaction cost of NOK 10 related to the financing of the Transaction.

**Equity** amount to a negative NOK 95 million at the end of the first half of 2019, compared to a negative NOK 50 million at the end of 2018. The acquisition of Shell's Danish upstream assets will partly be funded by issuing new ordinary shares through a USD 352 million private placement and USD 40 million through a partially underwritten subsequent offering that will be completed in Q3 2019.

The Company has secured USD 382 million (equivalent to NOK 3,319 billion) in equity financing through a private placement and a partially underwritten subsequent offering on certain terms and conditions in connection with the Transaction. As a result, the equity is expected to increase significantly for the Group in the third quarter of 2019.

**Asset retirement obligations** amount to NOK 578 million at the end of the first half of 2019 compared to NOK 594 million at the end of 2018. The asset retirement obligation is secured through an Escrow account of NOK 562 million.

**Interest-bearing debt** related to the bond loan NOR10 had a book value NOK 170 million (principal amount NOK 178 million) at the end of the first half of 2019, compared to a book value of NOK 160 million (principal amount NOK 163 million) at the end of 2018. The change in principal amount from YE 2018 is related to sale of own bonds and payment in kind interest. At the end of the quarter the NOR10 bond was valued at 95,5% of principal amount. In order to fund part of the initial payment to Shell, Noreco entered into a short-term funding agreement of USD 35 million which upon closing of the Transaction at 31.07.2019 was rolled into the convertible bond issue at par. The loan is presented as other interest-bearing debt.

The Company intends to change the reporting currency of the group financials to USD in the third quarter of 2019.

## Risks and uncertainties

An investment in Noreco involves risks and uncertainties as described in the directors' report and note 3 to the annual report 2018 and the prospectus published 9 August 2019. Noreco's business, results of operations, cash flow and financial condition depends on the level of oil and gas prices and market expectations of these. Further, Noreco is dependent on finding, acquiring, developing and producing oil and gas reserves that are economically recoverable. Unless the Company replaces its oil and gas reserves, its reserves and production will decline, which over time could adversely affect its business, financial condition and results of operations. Noreco is also exposed to risks such as changes in exchange rates, interest rates, tax and regulations, this also applies for the second half of 2019.

## Governance and organisation

The number of employees was 11 at the end of the quarter. Noreco is currently expanding its organization as a result of the transaction with Shell.

**Statement Pursuant to section 5-6 of the securities trading act**

Today, the board of directors and Managing Director reviewed and approved the financial report for the 2. Quarter 2018.

The financial report has been prepared in accordance with IAS 34 Interim Financial Reporting as endorsed by the EU, and the Norwegian additional requirements in the Securities Trading Act.

To the best of our knowledge:

- the report has been prepared in accordance with applicable financial reporting standards,
- the financial statements give a true and fair view of the assets, liabilities, financial position and result as a whole for the period.
- the financial board of director's report includes a fair review of
  - o important events that occurred during the accounting period and their impact on the financial statements
  - o the principal risks and uncertainties for the remaining three months of the financial year
  - o major related party transactions.

Oslo, 30 August 2019

The Board of Directors and Managing Director of Norwegian Energy Company ASA

**Riulf Rustad**

Chair

**Lars Purlund**

Board Member

**Marianne Lie**

Board Member

**John Madden**

Board Member

**Tone Kristin Omsted**

Board Member

**Frederik Rustad**

Managing Director

# Condensed Consolidated Statement of Comprehensive Income

Noreco Second Quarter  
2019

All figures in NOK million	Note	Q2 2019	Q2 2018	YTD Q2 2019	YTD Q2 2018	2018
Revenue	2	5	1	9	2	16
<b>Total revenues</b>		<b>5</b>	<b>1</b>	<b>9</b>	<b>2</b>	<b>16</b>
Production expenses	3	(2)	(1)	(3)	(1)	(3)
Personnel expenses	4	(7)	(3)	(12)	(6)	(19)
Other operating expenses	5	(7)	(7)	(12)	(12)	(156)
<b>Total operating expenses</b>		<b>(16)</b>	<b>(11)</b>	<b>(27)</b>	<b>(20)</b>	<b>(178)</b>
<b>Operating result before depreciation and write-downs (EBITDA)</b>		<b>(11)</b>	<b>(9)</b>	<b>(19)</b>	<b>(18)</b>	<b>(162)</b>
Depreciation	8, 16	(2)	(0)	(2)	(0)	(1)
<b>Net operating result (EBIT)</b>		<b>(12)</b>	<b>(10)</b>	<b>(21)</b>	<b>(18)</b>	<b>(163)</b>
Financial income	6	46	44	110	62	179
Financial expenses	6, 16	(66)	(21)	(150)	(72)	(159)
<b>Net financial items</b>		<b>(20)</b>	<b>24</b>	<b>(40)</b>	<b>(10)</b>	<b>20</b>
<b>Result before tax (EBT)</b>		<b>(32)</b>	<b>14</b>	<b>(60)</b>	<b>(28)</b>	<b>(143)</b>
Income tax benefit / (expense)	7	-	-	-	(0)	0
<b>Net result for the period</b>		<b>(32)</b>	<b>14</b>	<b>(60)</b>	<b>(28)</b>	<b>(143)</b>
<i>Items that will not be reclassified to profit or loss</i>						
Changes in fair value of bond debt		6	2	4	(4)	(3)
<i>Items that are or may be reclassified subsequently to profit or loss</i>						
Currency translation adjustment		6	(20)	11	1	(31)
<b>Total other comprehensive income for the period (net of tax)</b>		<b>12</b>	<b>(18)</b>	<b>15</b>	<b>(3)</b>	<b>(34)</b>
<b>Total comprehensive income for the period (net of tax)</b>		<b>(20)</b>	<b>(4)</b>	<b>(45)</b>	<b>(32)</b>	<b>(177)</b>
<b>Earnings per share (NOK 1)</b>						
Basic	15	(4,5)	1,90	(8,4)	(4,0)	(19,9)
Diluted	15	(4,5)	1,90	(8,4)	(4,0)	(19,9)

# Condensed Consolidated Statement of Financial Position

Noreco Second Quarter  
2019

All figures in NOK million	Note	30.06.19	31.12.18
<b>Non-current assets</b>			
Deferred tax assets	7	0	-
Property, plant and equipment	8	9	10
Right of use assets	16	7	-
Restricted cash	10, 13	562	578
Receivables	9	-	-
<b>Total non-current assets</b>		<b>577</b>	<b>588</b>
<b>Current assets</b>			
Tax refund	7	-	-
Trade receivables and other current assets	10, 13	451	471
Restricted cash	10, 13	1	1
Bank deposits, cash and cash equivalents	10, 13	9	22
<b>Total current assets</b>		<b>461</b>	<b>494</b>
<b>Total assets</b>		<b>1 038</b>	<b>1 082</b>
<b>Equity<sup>1)</sup></b>			
Share capital	15	72	72
Other equity		(167)	(122)
<b>Total equity</b>		<b>(95)</b>	<b>(50)</b>
<b>Non-current liabilities</b>			
Deferred tax	9	0	0
Asset retirement obligations	14	578	594
Lease liability	16	7	-
Other interest bearing debt	11, 13	0	0
<b>Total non-current liabilities</b>		<b>585</b>	<b>594</b>
<b>Current liabilities</b>			
Bond loan	11, 13	170	160
Other interest bearing debt	11, 13	323	312
Trade payables and other current liabilities	12	55	66
<b>Total current liabilities</b>		<b>549</b>	<b>537</b>
<b>Total liabilities</b>		<b>1 133</b>	<b>1 132</b>
<b>Total equity and liabilities</b>		<b>1 038</b>	<b>1 082</b>

1) The Company has secured USD 382 million (equivalent to NOK 3,319 billion) in equity financing through a private placement and a partially underwritten subsequent offering on certain terms and conditions in connection with the Transaction. As a result, the equity is expected to increase significantly for the Group in the third quarter of 2019.



## Condensed Consolidated Statement of Changes in Equity

Noreco Second Quarter  
2019

All figures in NOK million	Note	Share capital	Currency translation fund	Other equity	Total equity
<b>2018</b>					
<b>Equity on 01.01.2018</b>		<b>72</b>	<b>493</b>	<b>(424)</b>	<b>141</b>
Net result for the period			-	(29)	(29)
<b>Other comprehensive income for the period (net of tax)</b>					
Change in fair value of bond debt		-	-	(4)	(4)
Currency translation adjustments		-	1	-	1
<b>Total comprehensive income for the period (net of tax)</b>		<b>-</b>	<b>1</b>	<b>(4)</b>	<b>(3)</b>
<b>Equity on 30.06.2018</b>		<b>72</b>	<b>494</b>	<b>(457)</b>	<b>109</b>
<b>2019</b>					
<b>Equity on 01.01.2019</b>		<b>72</b>	<b>462</b>	<b>(584)</b>	<b>(50)</b>
Net result for the period			-	(60)	(60)
<b>Other comprehensive income for the period (net of tax)</b>					
Change in fair value of bond debt		-	-	4	4
Currency translation adjustments		-	11	-	11
<b>Total other comprehensive income for the period (net of tax)</b>		<b>-</b>	<b>11</b>	<b>4</b>	<b>15</b>
<b>Equity on 30.06.2019</b>		<b>72</b>	<b>473</b>	<b>(640)</b>	<b>(95)</b>

# Condensed Consolidated Statement of Cash Flows

Noreco Second Quarter  
2019

All figures in NOK million	Q2 2019	Q2 2018	YTD Q2 2019	2018
Net result for the period	(32)	14	(60)	(143)
Income tax benefit	-	-	-	(0)
<b>Adjustments to reconcile net result before tax to net cash flows from operating activities:</b>				
Tax Refundable				(0)
Depreciation	1	0	1	(1)
Share-based payments expenses			-	5
Change in fair value of bonds	6	2	4	(3)
Effect of changes in exchange rates	6	(20)	11	(31)
Paid abandonment cost				0
Payment in kind interest with no cash effect			8	8
<b>Changes in working capital</b>				
Changes in trade receivable	20	4	20	93
Changes in trade payables	(11)	(3)	(11)	41
Changes in other current balance sheet items	(5)	(4)	8	13
<b>Net cash flow from operating activities</b>	<b>(15)</b>	<b>(7)</b>	<b>(18)</b>	<b>(19)</b>
<b>Cash flows from investing activities</b>				
Proceeds from sale of assets				
Prepayment for acquisition of tangible assets				(346)
Purchase of intangible assets				
Net cash outflow from divestment of assets				
<b>Net cash flow used in investing activities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(346)</b>
<b>Cash flows from financing activities</b>				
Issue of share capital			-	0
Paid transaction cost of convertible bond loan				(43)
Proceeds from short-term loan				312
Proceeds from sale of bonds			6	(4)
Repurchase own bonds				(6)
Payment of Lease liabilities	(1)		(1)	
Interest paid				(5)
<b>Net cash flow from (used) in financing activities</b>	<b>(1)</b>	<b>-</b>	<b>5</b>	<b>254</b>
<b>Net change in cash and cash equivalents</b>	<b>(16)</b>	<b>(7)</b>	<b>(13)</b>	<b>(111)</b>
Cash and cash equivalents at the beginning of the period	25	109	22	133
<b>Cash and cash equivalents at end of the quarter</b>	<b>9</b>	<b>102</b>	<b>9</b>	<b>22</b>

# Notes

## 1 Accounting Principles

Norwegian Energy Company ASA (“Noreco”, “the Company” or “the Group”) is a public limited company registered in Norway, with headquarters in Oslo (Nedre Vollgate 1, 0158 Oslo). The Company has subsidiaries in Norway, Denmark and the United Kingdom. The Company is listed on the Oslo Stock Exchange.

### **Basis for preparation**

The interim condensed consolidated financial statements (the interim financial statements) for the second quarter 2019 comprise Norwegian Energy Company ASA (Noreco) and its subsidiaries. These interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU. The interim financial statements do not include all of the information and disclosures required to represent a complete set of financial statements, and these interim financial statements should be read in conjunction with the annual financial statements. The interim financial statements are unaudited.

The subtotals and totals in some of the tables may not equal the sum of the amounts shown due to rounding.

The interim financial statements for the second quarter of 2019 were authorised for issue by the board of directors on 30 of August 2019.

### **Going concern**

The board of directors confirms that the interim financial statements have been prepared under the presumption of going concern, and that this is the basis for the preparation of these interim financial statements. The financial solidity and the company’s cash position are considered satisfactory in regards of the planned activity level for the next twelve months.

As part of the Transaction, Noreco has raised additional capital through a new seven-year Reserve Based Lending Facility up to USD 900 million with a sub-limit of USD 100 million for letters of credit, by the issuance of a convertible bond of up to USD 160 million, issuing new ordinary shares through a USD 352 million private placement and USD 40 million through a partially underwritten subsequent offering. In order to fund part of the initial payment to Shell, Noreco has entered into a short-term funding agreement of USD 35 million which upon closing of the Transaction was rolled into the convertible bond issue at par.

### **Reference to summary of significant accounting policies**

IFRS 15 Revenues from contract with customers has a notable effect in the first half of 2019 as the over-/underlift is valued at cost of production and recognized under production expenses instead of through revenue at estimated sales value minus sales cost as in 2018. IFRIC concluded in March 2019 that the joint operator recognizes revenue that depicts only the transfer of output to its customers in each reporting period, i.e. the joint operator does not recognize revenue for the output to which it is entitled but which it has not received from the joint operation and sold.

These interim financial statements are prepared using the same accounting principles as the annual financial statements for 2018, except for the new IFRS 16 standard effective from 01.01.2019. For the full summary of significant accounting policies, reference is made to the annual financial statements for 2018.

### **IFRS 15 Revenue from contracts with customers**

IFRS 15 is effective from 1 January 2018. The standard presents a single, principles-based five-step model for determination and recognition of revenue to be applied to all contracts with customers. The Group has applied the modified retrospective approach only to contracts that are not completed at 1 January 2018. Under this method, comparative figures are not restated and the cumulative effect of initially applying the standard (if any) would be recognized at the date of adoption. Under IFRS 15, revenue will be recognised when the customer obtains control of the hydrocarbons, which will ordinarily be at the point of delivery when title passes. The changes in over/underlift balances previously included as revenue do not represent transfer of title to the customer and are now included in production expense at cost of production in order to meet the IFRS 15 definition of revenue from contracts with customers. The Group has not had any major impact on earnings at adoption of IFRS 15 in 2018.

**IFRS 16 Leases****Financial Reporting Principles**

IFRS 16 Leasing effective January 1 2019 has significantly changed how the company accounts for its lease contracts. The company leases office buildings. The company also leases machines and vehicles. Before the adoption of IFRS 16, all lease contracts were classified as operating leases. IFRS 16 requires all contracts that contain a lease to be recognized on the balance sheet as a right-of-use asset and lease liability. Only certain short-term and low-value leases are exempt. The right-of-use asset is depreciated over the lease term and is subject to impairment testing. The lease payments previously included as operating expense in the income statement are reported as depreciation and financial expense under IFRS 16. This results in an improvement of EBITDA, refer to the impact of IFRS 16 in note 16. The lease liability represents the net present value of the lease payments to be made over the remaining lease period. The cash outflows for leases under IFRS 16 is presented as repayment of interest-bearing liabilities within financing activities in the cash flow statement. IFRS 16 Leasing replaced former leasing guidance, including IAS 17 Leases and IFRIC 4, SIC 15 and SIC 27. Noreco has used the exemption for small and short-term leases.

Interest paid is still classified as cash outflows within operating activities. Due to the immaterial size of the current lease and the duration of the contracts, IFRS 16 does not have a material impact on the Consolidated statement of financial position or statement of income for Q2 2019.

**Other amendments to standards**

Other standards and amendments to standards, issued but not yet effective, are either not expected to impact Noreco Consolidated financial statements materially, or are not expected to be relevant to the Consolidated financial statements upon adoption.

## 2 Revenue

<i>NOK million</i>	<i>Q2 2019</i>	<i>Q2 2018</i>	<i>YTD Q2 2019</i>	<i>YTD Q2 2018</i>
Sale of oil	5	1	8	2
Sale of gas and NGL	0	0	1	0
<b>Total Revenue</b>	<b>5</b>	<b>1</b>	<b>9</b>	<b>2</b>

## 3 Production Expenses

<i>NOK million</i>	<i>Q2 2019</i>	<i>Q2 2018</i>	<i>YTD Q2 2019</i>	<i>YTD Q2 2018</i>
Lulita	(2)	(1)	(3)	(1)
<b>Total production expenses</b>	<b>(2)</b>	<b>(1)</b>	<b>(3)</b>	<b>(1)</b>

## 4 Personell Expenses

<i>NOK million</i>	<i>Q2 2019</i>	<i>Q2 2018</i>	<i>YTD Q2 2019</i>	<i>YTD Q2 2018</i>
Salaries	(4)	(2)	(8)	(5)
Social security tax	(0)	(0)	(1)	(1)
Pension costs	(0)	(0)	(0)	(0)
Other personnel expenses	(2)	(0)	(3)	(0)
<b>Total personnel expenses</b>	<b>(7)</b>	<b>(3)</b>	<b>(12)</b>	<b>(6)</b>
<b>Average number of employees</b>	<b>10</b>	<b>8</b>	<b>10</b>	<b>8</b>

## 5 Other Operating Expenses

<i>NOK million</i>	<i>Q2 2019</i>	<i>Q2 2018</i>	<i>YTD Q2 2019</i>	<i>YTD Q2 2018</i>
Premises	(0)	(0)	(1)	(1)
IT expenses	(3)	(1)	(5)	(1)
Travel expenses	0	(0)	(0)	(0)
Office cost	(0)	(0)	(1)	(0)
Consultant fees	(3)	(5)	(4)	(9)
Other operating expenses	(1)	(1)	(1)	(1)
<b>Total other operating expenses</b>	<b>(7)</b>	<b>(7)</b>	<b>(12)</b>	<b>(12)</b>

## 6 Financial Income and Expenses

### Financial Income

<i>NOK million</i>	<i>Q2 2019</i>	<i>Q2 2018</i>	<i>YTD Q2 2019</i>	<i>YTD Q2 2018</i>
Interest income	1	1	2	2
Foreign exchange gains	45	43	108	59
<b>Total financial income</b>	<b>46</b>	<b>44</b>	<b>110</b>	<b>61</b>

### Financial Expenses

<i>NOK million</i>	<i>Q2 2019</i>	<i>Q2 2018</i>	<i>YTD Q2 2019</i>	<i>YTD Q2 2018</i>
Interest expense from loans	(14)	(4)	(27)	(7)
Interest expenses current liabilities	(0)	(0)	(0)	(0)
Accretion expense related to asset retirement obligations	(0)	(0)	(0)	(0)
Foreign exchange losses	(51)	(15)	(120)	(62)
Interest lease liability	(0)	-	(0)	-
Other financial expenses	(1)	(1)	(2)	(2)
<b>Total financial expenses</b>	<b>(66)</b>	<b>(21)</b>	<b>(150)</b>	<b>(72)</b>
<b>Net financial items</b>	<b>(20)</b>	<b>24</b>	<b>(40)</b>	<b>(11)</b>

## 7

## Tax

<i>Income Tax</i> <i>NOK million</i>	<i>Q2 2019</i>	<i>Q2 2018</i>	<i>YTD Q2 2019</i>	<i>YTD Q2 2018</i>
Income (loss) before tax	(32)	14	(60)	(29)
Income tax benefit / (expense)	-	-	-	(0)
<b>Equivalent to tax rate of</b>	<b>0,0%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>0,0%</b>

The effective tax rate for the quarter is approximately 0 percent. Noreco operates in different tax regimes with separate tax rates. As such, the weighted average tax rate varies from quarter to quarter based on variations of the tax basis.

Deferred tax asset and deferred tax liability are presented net for each jurisdiction and tax regime, where our legal entities have, or are expected to have a legally enforceable right to offset current tax assets against current tax liabilities, and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority.

<i>Tax loss carry forward 30.06.19</i> <i>NOK million</i>	<i>Offshore</i>		<i>Onshore</i>	
	<i>Recognised</i>	<i>Un-Recognised</i>	<i>Recognised</i>	<i>Un-Recognised</i>
<b>Norway (offshore 55% / onshore 23%)</b>				
Norwegian Energy Company ASA	-	-	-	518
Altinex AS	-	-	-	-
<b>Denmark (offshore 52% / onshore 25%)</b>				
Noreco Denmark A/S	-	-	-	-
Noreco Oil Denmark A/S ( Chapter 2, 25%)	-	566	-	-
Noreco Oil Denmark A/S ( Chapter 3a, 52%)	-	5 803	-	-
Noreco Petroleum Denmark A/S ( Chapter 2, 25%)	-	14	-	-
Noreco Petroleum Denmark A/S ( Chapter 3a, 52%)	-	921	-	-
<b>UK (offshore 30% / onshore 10%)</b>				
Norwegian Energy Company (UK) Ltd.	-	463	-	463
Noreco Oil (UK) Ltd.	-	820	-	638
<b>Total tax loss carry forward</b>	<b>-</b>	<b>8 587</b>	<b>-</b>	<b>1 618</b>

Tax loss carry forwards in the Danish offshore tax regime of NOK 6 724 million and NOK 580 million has been calculated according to Chapter 3A and Chapter 2 respectively in the Danish Hydrocarbon Taxation Act (kulbrinteskatteloven). Deferred tax assets is recognized for tax loss carry forwards and negative temporary differences to the extent that the realization of the related tax benefit through future taxable profits is probable.

Though an agreement with Shell to acquire 36.8% of DUC on the DCS has been completed the tax loss carry forward has not yet been recognised in the balance sheet as the deal was completed 31 July 2019 after the second quarter close.

Current forecast indicates that the tax loss carry forward in Noreco Oil (UK) Ltd will not be utilised until enhanced reserves and production base have been established and an approval by the UK authorities to utilise the tax loss carry forward by new activities.

Deferred tax assets is recognized for tax loss carry forwards and negative temporary differences to the extent that the realization of the related tax benefit through future taxable profits is probable.



## 8 Property, Plant and Equipment

<i>NOK million</i>	<i>Production facilities</i>	<i>Machinery and equipment</i>	<i>Total</i>
Acquisition costs 01.01.19	29	7	36
Additions	-	0	0
Currency translation adjustment	(2)	(0)	(2)
<b>Acquisition costs 30.06.19</b>	<b>27</b>	<b>7</b>	<b>34</b>
<b>Accumulated depreciation and write-downs</b>			
Accumulated depreciation and write-downs 01.01.19	(20)	(6)	(26)
Depreciation	(1)	(0)	(1)
Currency translation adjustment	2	0	2
<b>Accumulated depreciation and write-downs 30.06.19</b>	<b>(19)</b>	<b>(6)</b>	<b>(25)</b>
<b>Book value 30.06.19</b>	<b>8</b>	<b>1</b>	<b>9</b>

## 9 Non-Current Receivables, Trade Receivables and Other Current Assets

<i>NOK million</i>	<i>30.06.19</i>	<i>31.12.18</i>
<b>Non-current assets</b>		
Other receivables	-	(0)
<b>Total non-current receivables</b>	<b>-</b>	<b>(0)</b>
<b>Current assets</b>		
Tax receivables	0	0
Trade receivables	7	3
Receivables from operators relating to joint venture licences	0	0
Underlift of oil/NGL	9	10
Prepayments *	435	406
Other receivables	0	52
<b>Total trade receivables and other current receivables</b>	<b>451</b>	<b>471</b>

\*) Initial payment to Shell of USD 40 million (NOK 341 million) for the acquisition of SOGU and transaction cost of NOK 87 million.

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## Restricted Cash, Bank Deposits, Cash and Cash Equivalents

<i>NOK million</i>	<i>30.06.19</i>	<i>31.12.18</i>
<b>Non-current assets</b>		
Restricted cash pledged as security for abandonment obligation in Denmark <sup>1)</sup>	562	578
Other restricted cash and bank deposits	(0)	(0)
<b>Total non-current restricted cash</b>	<b>562</b>	<b>578</b>
<b>Current assets</b>		
Other restricted cash and bank deposits (Bond holder pledge account, Withholding tax etc.)	1	1
<b>Total current restricted cash</b>	<b>1</b>	<b>1</b>
Unrestricted cash, bank deposits, cash equivalents	9	22
<b>Total bank deposits</b>	<b>571</b>	<b>600</b>

- 1) Any currency exposure in the subsidiary connected with the ARO of DKK 436 million, has been hedged in the group accounts by a pledged bank account containing the same amount in DKK in the parent company. Any currency gains and losses from this has however been recognized as financial income/expense in line with IFRS 9 due to different functional currency in the parent and subsidiary.

## 11

## Borrowings

## 11.1 Principal Amounts and Book Values

Current Debt NOK million	30.06.2019		31.12.18	
	Principal amount	Book value	Principal amount	Book value
Deposit loan <sup>1)</sup>	323	323	312	312
NOR10 <sup>2)</sup>	178	170	163	160
<b>Total current bonds</b>	<b>502</b>	<b>494</b>	<b>475</b>	<b>471</b>
<b>Total borrowings</b>	<b>502</b>	<b>494</b>	<b>475</b>	<b>471</b>

- 1) In order to fund part of the initial payment to Shell, Noreco entered into a short-term funding agreement of USD 35 million in 2018 which upon closing of the Transaction at 31 July 2019 was rolled into the convertible bond issue at par.
- 2) The change in principal amount from YE 2018 is sale of own bonds and payment in kind interest. NOR10 was repaid at the closing of the Transaction 31 July 2019.

## 11.2 Subsequent Measurement and Events in Second Quarter

The subsequent measurement depends on which category the borrowings have been classified into. The categories applicable for Noreco are either financial liabilities at fair value through profit or loss or financial liabilities measured at amortised cost using the effective interest method. Noreco has designated the amended and restated bond loans at fair value through profit or loss. The following fair values were applied for the amended and restated bond loans at the end of second quarter 2019:

<b>NOR10</b>	<b>95.5 %</b>
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It is assumed that the change in fair value in the second quarter in its entirety is attributable to change in own credit risk and in line with IFRS 9 booked through the OCI.

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## Trade Payables and Other Current Liabilities

NOK million	30.06.19	31.12.18
Trade payable	23	26
Liabilities to operators relating to joint venture licences	(0)	(0)
Overlift of oil/NGL	(0)	(0)
Accrued interest	6	5
Salary accruals	20	21
Public duties payable	0	(0)
Other current liabilities	5	14
<b>Total other current liabilities</b>	<b>55</b>	<b>66</b>

## 13

## Financial Instruments

## 13.1 Fair Value Hierarchy

The table below analyses financial instruments carried at fair value, by valuation method.

The different levels have been defined as follows:

- Level 1** Quoted prices (unadjusted) in active markets for identical assets or liabilities.  
**Level 2** Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.  
**Level 3** Inputs for the asset or liability that are not based on observable market data.

On 30.06.2019

NOK million	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Financial assets at fair value through profit or loss				
- Underlift of oil		9		9
<b>Total assets</b>	<b>0</b>	<b>9</b>	<b>-</b>	<b>9</b>
<b>Liabilities</b>				
Financial liabilities at fair value through profit or loss				
- Bond loans			170	170
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>170</b>	<b>170</b>

On 31.12.2018

NOK million	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Financial assets at fair value through profit or loss				
- Underlift of oil		10		10
<b>Total assets</b>	<b>-</b>	<b>10</b>	<b>-</b>	<b>10</b>
<b>Liabilities</b>				
Financial liabilities at fair value through profit or loss				
- Bond loans			160	160
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>160</b>	<b>160</b>

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to determine the fair value for a financial instrument are observable, the instrument is included in level 2.

Due to low volumes being traded Noreco has used valuation techniques in order to estimate the fair value on the NOR10.

## 13.2 Financial Instruments by Category

<i>On 30.06.2019</i> <i>NOK million</i>	<i>Financial assets at amortised cost</i>	<i>Assets at fair value through profit or loss</i>	<i>Total</i>
<b>Assets</b>			
Trade receivables and other current assets	451		451
Restricted cash	562		562
Bank deposits, cash, cash equivalents and quoted shares	9	0	9
<b>Total</b>	<b>1 022</b>	<b>0</b>	<b>1 022</b>

<i>NOK million</i>	<i>Financial liabilities at amortised cost</i>	<i>Liabilities at fair value through profit or loss</i>	<i>Total</i>
<b>Liabilities</b>			
Bonds		170	170
Other interest bearing debt <sup>1)</sup>	323		323
Trade payables and other current liabilities	55	-	55
<b>Total</b>	<b>379</b>	<b>170</b>	<b>549</b>

- 1) In order to fund part of the initial payment to Shell, Noreco entered into a short-term funding agreement of USD 35 million which upon closing of the Transaction at 31 July 2019 was rolled into the convertible bond issue at par.

<i>On 31.12.2018</i> <i>NOK million</i>	<i>Financial assets at amortised cost</i>	<i>Assets at fair value through profit or loss</i>	<i>Total</i>
<b>Assets</b>			
Trade receivables and other current assets	461	10	471
Restricted cash	578		578
Bank deposits, cash and cash equivalents	22	0	22
<b>Total</b>	<b>1 061</b>	<b>10</b>	<b>1 072</b>

<i>NOK million</i>	<i>Financial liabilities at amortised cost</i>	<i>Liabilities at fair value through profit or loss</i>	<i>Total</i>
<b>Liabilities</b>			
Bonds		160	160
Other interest bearing debt	312	-	312
Trade payables and other current liabilities	66	(0)	66
<b>Total</b>	<b>377</b>	<b>160</b>	<b>537</b>

## 13.3 Financial Instruments – Fair Values

Set out below is a comparison of the carrying amounts and fair value of financial instruments as on 30 June 2019:

<i>NOK million</i>	<i>Carrying Amount</i>	<i>Fair Value</i>
<b>Financial assets</b>		
Trade receivables and other current assets	451	451
Restricted cash	562	562
Bank deposits, cash, cash equivalents and quoted shares	9	9
<b>Total</b>	<b>1 022</b>	<b>1 022</b>
<b>Financial liabilities</b>		
Bond loans	170	170
Other interest bearing debt <sup>1)</sup>	323	323
Trade payables and other current liabilities	55	55
<b>Total</b>	<b>549</b>	<b>549</b>

- 1) In order to fund part of the initial payment to Shell, Noreco entered into a short-term funding agreement of USD 35 million which upon closing of the Transaction on 31 July 2019 was rolled into the convertible bond issue at par.

## 14

## Asset Retirement Obligations

<i>NOK million</i>	<i>30.06.19</i>	<i>31.12.18</i>
Balance on 01.01.	594	593
Provisions and change of estimates made during the year	(2)	(5)
Abandonment cost paid	0	(0)
Currency translation	(15)	6
<b>Total provision made for asset retirement obligations</b>	<b>577</b>	<b>594</b>

As part of the overall restructuring in 2015, an agreement was reached that entails that the partners will take over Noreco's share of the Nini/Cecilie licences. The restricted cash account of DKK 436 million, set aside for future abandonment costs for Nini/Cecilie will not be transferred. The Danish part of Noreco remains liable for the abandonment obligation, but the liability is in any and all circumstances limited to a maximum amount which equals the restricted cash account. Total provision made for asset retirement obligations reflects this.

The balance as per 30.06.2019 is NOK 561 million for Nini/Cecilie and NOK 16 million for Lulita.

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## Shares and Share Capital

<i>NOK million</i>	<i>No. of Shares</i>	<i>Share Capital</i>
31 December 2018	7 194 730	72
Change in share capital in 2019	-	-
Number of shares and share capital 30 June 2019	7 194 730	72

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## Right-of-Use Assets and Lease Liabilities

## Recognition and Measurement Approach on Transition

The company has elected to use the recognition exemptions in the standard for short-term leases and leases of low value items such as computers and office equipment. The company also applied the recognition exemption for leases that expire in 2019. The company has elected to exclude the initial direct costs from the measurement of right-of-use asset on implementation. Noreco has applied the transition method that is the modified retrospective where the right of use assets equal to the lease liability as at 01.01.2019 (using the incremental borrowing rate per January 1 2019).

The discount rate has been determined for each leased asset according to the incremental borrowing rate at the date of implementation (January 1 2019). Periods covered by extension or termination options are included when it is reasonably certain that the lease period will be extended. Non-lease components such as electricity, insurance and other property-related expenses paid to the landlord are excluded from the lease commitment for offices, but included when renting apartments and vehicles if included in the agreed lease amount. Future index or rate adjustments of lease payments are only included in the lease liability when a minimum adjustment has been contractually agreed and is in-substance fixed.

The movement in the right-of-use assets and lease liabilities since implementation is summarized below.

<i>NOK million</i>	<i>Land and building</i>	<i>Machinery and vehicles</i>	<i>Right-of-Use assets</i>	<i>Lease liabilities</i>
Balance as of January 1, 2019	7	0	8	8
Additions				
Depreciation expense	(1)	(0)	(1)	n/a
Interest expense	n/a	n/a	n/a	0
Lease payments	n/a	n/a	n/a	(1)
Balance as of June 30, 2019	6	0	7	7

Lease payments of NOK 1 million mainly consist of lease installments of NOK 1,2 million and interest expense of NOK 262.000.

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## Subsequent Events

On 25 July 2019, a call notice to redeem all outstanding bonds under the NOR10 bond issue was sent to the bond trustee, the bond was settled and repaid in full on 30 July 2019.

On 26 July 2019, Noreco issued 15,585,635 shares in a private placement and USD 158,138,102 in a convertible bond issue which were listed on the Oslo Stock Exchange on 12 August 2019.

On 31 July 2019, Noreco completed the acquisition of Shell Olie- og Gasudvinding Danmark B.V. and became a partner in the DUC.

On 6 August 2019, it was announced that Euan Shirlaw had been appointed as CFO of the group.

On 7 August 2019, an extraordinary general meeting of the company was held in which, among other, three new board members were elected; Colette Cohen, Chris Bruijnzeels and Yves-Louis Darricarrère.

On 9 August 2019, Noreco published a prospectus which had been approved by the Norwegian Financial Supervisory Authority (Nw. Finanstilsynet).

On 30 August 2019, Noreco issued 1,768,648 new shares in the subsequent offering, final results indicated that the offering was over-subscribed by 101%.



## Information About Noreco

### **Head Office Noreco**

Headquarter	Nedre Vollgate 1, 0158 Oslo, Norway
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Organisation number	NO 987 989 297 MVA

### **Financial Calendar 2019**

22 February	Q4 2018 Report
30 April	Annual Report 2018
22 May	Annual General Meeting
22 May	Q1 2019 Report
30 August	Q2 2019 Report
20 November	Q3 2019 Report

### **Board of Directors Noreco**

Riulf Rustad	Chair
Lars Purlund	
Marianne Lie	
John Madden	
Tone Kristin Omsted	

### **Noreco Management**

Frederik Rustad	Managing Director
Euan Shirlaw <sup>1)</sup>	Chief Financial Officer

### **Investor Relations**

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### **Annual Reports**

Annual reports for Noreco are available on [www.noreco.com](http://www.noreco.com)

### **Quarterly publications**

Quarterly reports and supplementary information for investors and analysts are available on [www.noreco.com](http://www.noreco.com). The publications can be ordered by e-mailing [ir@noreco.com](mailto:ir@noreco.com).

### **News Releases**

In order to receive news releases from Noreco, please register on [www.noreco.com](http://www.noreco.com) or e-mail [ir@noreco.com](mailto:ir@noreco.com).

1) From 1 October 2019

