Brønnøysundregistrene

ÅRSREGNSKAPET FOR REGNSKAPSÅRET 2018 - GENERELL INFORMASJON

Enheten

Organisasjonsnummer:	989 399 071
Organisasjonsform:	Aksjeselskap
Foretaksnavn:	DNO NORTH SEA (NORGE) AS
Forretningsadresse:	Badehusgata 37 4014 STAVANGER

Regnskapsår

Årsregnskapets periode:	01.01.2018 - 31.12.2018

Konsern

Morselskap i konsern:	Nei

Regnskapsregler

Regler for små foretak benyttet:	Nei
Benyttet ved utarbeidelsen av årsregnskapet til selskapet:	IFRS

Årsregnskapet fastsatt av kompetent organ

Bekreftet av representant for selskapet:	Nina Henriksen/Ludvig Høvring
Dato for fastsettelse av årsregnskapet:	27.06.2019

Grunnlag for avgivelse

År 2018: Årsregnskapet er elektronisk innlevert
År 2017: Tall er hentet fra elektronisk innlevert årsregnskap fra 2018

Det er ikke krav til at årsregnskapet m.v. som sendes til Regnskapsregisteret er undertegnet. Kontrollen på at dette er utført ligger hos revisor/enhetens øverste organ. Sikkerheten ivaretas ved at innsender har rolle/rettighet for innsending av årsregnskapet via Altinn, og ved at det bekreftes at årsregnskapet er fastsatt av kompetent organ.

Brønnøysundregistrene, 20.11.2020

Brønnøysundregistrene
Postadresse: 8910 Brønnøysund
Telefoner: Opplysningstelefonen 75 00 75 00 Telefaks 75 00 75 05
E-post: firmapost@brreg.no Internett: www.brreg.no
Organisasjonsnummer: 974 760 673

Resultatregnskap

Beløp i: NOK	Note	2018	2017
RESULTATREGNSKAP			
Inntekter			
Revenue	3	1 940 023 000	1 260 258 000
Other income		227 401 000	194 647 000
Sum inntekter		**2 167 424 000**	**1 454 905 000**
Kostnader			
Production cost	4	1 011 211 000	620 997 000
Depreciation	4,12	215 645 000	292 067 000
Asset impairment	5,12	79 700 000	34 700 000
Net gain on disposal of property, plant and equipment		-282 102 000	-77 470 000
Exploration and evaluation expenses	10	255 932 000	263 497 000
Administrative expenses	6.8.9.1 9	109 197 000	27 389 000
Sum kostnader		**1 389 583 000**	**1 161 180 000**
Driftsresultat		**777 841 000**	**293 725 000**
Finansinntekter og finanskostnader			
Finance Revenue	7	27 972 000	5 746 000
Sum finansinntekter		**27 972 000**	**5 746 000**
Finance costs	7	140 592 000	203 929 000
Sum finanskostnader		**140 592 000**	**203 929 000**
Netto finans		**-112 620 000**	**-198 183 000**
Ordinært resultat før skattekostnad		**665 221 000**	**95 542 000**
Tax credit	11	275 759 000	70 522 000
Ordinært resultat etter skattekostnad		**389 462 000**	**25 020 000**
Årsresultat		**389 462 000**	**25 020 000**

Balanse

Beløp i: NOK	Note	2018	2017
BALANSE - EIENDELER			
Anleggsmidler			
Immaterielle eiendeler			
Exploration, development and producing assets	12	3 665 999 000	2 617 869 000
Utsatt skattefordel	11	529 080 000	759 971 000
Goodwill		82 098 000	82 098 000
Sum immaterielle eiendeler		**4 277 177 000**	**3 459 938 000**
Varige driftsmidler			
Property, plant and equipment	12	9 294 000	7 292 000
Sum varige driftsmidler		**9 294 000**	**7 292 000**
Sum anleggsmidler		**4 286 471 000**	**3 467 230 000**
Omløpsmidler			
Varer			
Fordringer			
Trade and other receivables	13	1 065 029 000	1 126 609 000
Current tax receivable	11	272 754 000	394 484 000
Assets held for sale	25	782 840 000	515 120 000
Sum fordringer		**2 120 623 000**	**2 036 213 000**
Bankinnskudd, kontanter og lignende			
Cash and cash equivalents	25	562 795 000	440 982 000
Sum bankinnskudd, kontanter og lignende		**562 795 000**	**440 982 000**
Sum omløpsmidler		**2 683 418 000**	**2 477 195 000**
SUM EIENDELER		**6 969 889 000**	**5 944 425 000**

BALANSE - EGENKAPITAL OG GJELD

Egenkapital

Innskutt egenkapital

Balanse

Beløp i: NOK	Note	2018	2017
Equity share capital	26	10 000 000	10 000 000
Overkurs		195 050 000	195 050 000
Sum innskutt egenkapital		**205 050 000**	**205 050 000**
Opptjent egenkapital			
Other reserves		113 297 000	104 690 000
Retained earnings		549 595 000	160 132 000
Sum opptjent egenkapital		**662 892 000**	**264 822 000**
Sum egenkapital		**867 942 000**	**469 872 000**
Gjeld			
Langsiktig gjeld			
Annen langsiktig gjeld			
Other long term liabilities	17	2 249 263 000	1 721 625 000
Provisions	16	2 169 909 000	2 024 357 000
Liabilities directly assosiated with assets held for sale	25	340 670 000	350 003 000
Sum annen langsiktig gjeld		**4 759 842 000**	**4 095 985 000**
Sum langsiktig gjeld		**4 759 842 000**	**4 095 985 000**
Kortsiktig gjeld			
Liabilities credit institution	15,17	155 000 000	365 000 000
Leverandørgjeld	15,17	1 187 104 000	1 013 569 000
Sum kortsiktig gjeld		**1 342 104 000**	**1 378 569 000**
Sum gjeld		**6 101 946 000**	**5 474 554 000**
SUM EGENKAPITAL OG GJELD		**6 969 888 000**	**5 944 426 000**

DNO
EST - 1971

Directors' Report & Financial Statements with notes

31 December 2018

Registered number 989 399 071

Contents

Registered number 989 399 071

Directors Report

Principal activities and location

The principal activities of DNO North Sea (Norge) AS ('the Company' or 'DNO NSN') are exploration, appraisal, development and production of oil and gas reserves on the Norwegian continental shelf. The Company is located in Badehusgata 37, Stavanger.

Per 31 December 2018 the Company's parent company was Faroe Petroleum plc with head office in Aberdeen, United Kingdom. As an effect of a change of control, the parent company changed name to DNO North Sea plc.

On 11 January 2019, DNO ASA ("DNO") obtained control of Faroe and subsequently de-listed Faroe Petroleum plc from AIM on 14 February 2019. New Board was appointed on the 28 January 2019 to manage the Company. DNO is currently undergoing a process of integrating former Faroe into DNO and aligning the strategies of the companies.

Going Concern

The financial statements for 2018 are prepared on a going concern basis. Taking into consideration the Company's current cash position, future revenue from existing oil and gas fields, the Company's borrowing facilities, and the parent company guarantee, the Company has adequate financial resources and the Board believe that the Company is well placed to meet the costs of its commitments and manage its business risks successfully. The Board's review of the financial statements, budgets and forward plan lead the Board to believe that the Company has sufficient resources to continue in operation for the near future. The Board confirms that the condition for going concern are present in accordance with section 3-3a) of the Norwegian Accounting Act.

Overview
The year end net cash position was NOK 562.8 million ('NOK 562.8 million') (2017: NOK 440.9 million). The increased cash position was primarily due to the Fenja deal completion settlement partly offset by significant levels of capital expenditure. DNO NSN's active exploration and appraisal programme in Norway, which benefits from the 78% exploration tax refund, has continued with five wells drilled in 2018, of which the Iris / Hades well resulted in an increase in estimated recoverable resource volumes.

The tax receivable at the end of 2018 was NOK 272.7 million (2017: NOK 394.5 million receivable) and exceeds the utilisation from the exploration financing facility.

On 5 December 2018, DNO NSN publicly announced that it had signed a binding agreement with Equinor to swap its interests in the Njord, Hyme redevelopment and Bauge development assets, in return for interests in four production assets on the Norwegian Continental Shelf: Alve, Marulk, Ringhorne East and Vilje on a cashless basis effective 1 January 2019. This swap was completed 29 April 2019.

Income statement
Revenue for the year was NOK 1 940 million (2017: NOK 1 260.2 Million). DNO NSN sells most of its oil under payment quantity contracts, and so has received payment for the outstanding underlift. The payment is included in deferred income on the balance sheet until the oil is lifted and then is released to revenue. The increase in revenue reflects a higher realised price per boe, partially offset by lower production.

Cost of sales, including depreciation of producing assets, but before impairment charges, was NOK 1 226.8 million (2017: NOK 913 million) Pre-tax impairment charges of NOK 79.7 million (post-tax NOK 17.5 million) (2017: NOK 34.7 million and NOK 7.6 million pre- and post-tax respectively) were incurred on Brage and Ula. The Company's profit before tax was NOK 665.2 million (2017: Profit NOK 95.5 million).

Other income was NOK 227 million (2017: NOK 196 million), of which NOK 234.9 million related to compensation income between Oselvar (DNO NSN 55%) and Oda (DNO NSN 15%), and unrealised hedging gains of NOK 18.4 million which were offset by realised hedging losses of NOK 30.9 million.
In May 2018, the partial divestment of the Fenja asset was completed for a consideration of USD 54.5 million, leading to a post-tax gain on disposal of NOK 288.3 million.

Pre-tax exploration and evaluation expenses for the year were NOK 255.9 million (post-tax: NOK 56.3 million) (2017: NOK 263.5 million and NOK 57.9 million pre- and post-tax respectively). This includes pre-award exploration expenses of NOK 73 million and write-offs of licence-specific exploration and evaluation expenditure of NOK 182.9 million on previously capitalised licences where active exploration has now ceased. The exploration costs which were written off during the year were mainly related to PL794 Rosapenna (NOK 77.4 million), PL740 Brasse (NOK 69.9 million) and PL405 Cassidy (NOK 35.1 million) along with other exploration costs on a number of licences.

Expensed administration costs in 2018 were NOK 109.2 million (2017: NOK 27.4 million). The increase of NOK 81.8 million is primarily due to an increase of salary/personnel costs and consultant costs of NOK 117.8 million offset by a decrease in time writing of NOK 36 million.
The Company`s profit before tax was NOK 665.2 million (2017: Profit NOK 95.5 million). Net profit for the year was NOK 389.4 million (2017: NOK 25 million profit)

Hedging
In line with the Company's then policy, approximately 81% of post-tax production was hedged in 2018. The realised hedging loss was NOK 12.5 million (2017: NOK 14.6 million).

Further gas and oil hedges were put in place in 2018 following which approximately 74% of post-tax oil production was hedged for 2018, 28% of post-tax oil production is hedged for 2019. Following the change of control, the hedging strategy is under review.
The Company's net income is subject to taxation under two regimes in Norway, namely: offshore, where a special tax of 55% (2019: 56%) is applied, and onshore, where the standard corporation tax rate is 23% (2019: 22%). Hedging gains fall only within the onshore regime and hence the concept of hedging "post-tax production" which means that in order to be fully hedged in Norway on a post-tax basis, approximately 29% of pre-tax barrels need to be hedged.

Taxation
The Company benefits from a 78% exploration and appraisal cost rebate, meaning that for every NOK 100 spent on exploration and appraisal that results in a loss for tax purposes, the Norwegian Government will refund NOK 78 the following year. The Company can also borrow under its Norway exploration facility 96% of the NOK 78 per NOK 100 refund, thereby maximising equity leverage in Norwegian exploration wells and minimising the need to farm down. The Norwegian tax system therefore ensures a cost-effective fiscal environment in which to explore, and cushions the cash impact of falling oil prices, as lower profits from production result in an increased tax rebate.

The amount of tax receivable attributable to this refund at 31 December 2018 was NOK 272.7 million (2017: NOK 394.5 million). The refund will be received in November 2019. The tax expense in the Income Statement was NOK 275.7 million (2017: NOK 70.5 million).

Development capex in Norway is depreciated on a straight-line basis over six years for tax purposes. In addition, an uplift of 20.8% (2018:21.2%) can be offset against the 56% (2018: 55 %) special tax. The uplift is taken on a straight-line basis over four years. This means that close to 90% of capex spend is recovered through the tax system. At December 2018, DNO NSN had carried forward tax capex balances of NOK 1 964.1 million. In addition, at December 2018, DNO NSN had carried forward tax losses in Norway of NOK 238.4 million and NOK 801.9 million for corporation tax and special tax respectively.

In December 2018 the Company had a deferred tax asset of NOK 474.5 million (2017: NOK 432.8 million) in respect of carried forward tax losses, capex balances and uplifts, net of other temporary differences. In addition, deferred tax asset on held for sale assets was included for the Equinor swap transaction (see note 25) of NOK 254.5 million (2017: NOK 327.2 million for Fenja farm out). Total deferred tax asset including the held for sale assets is NOK 529 million (2017: NOK 759.9 million)

Balance sheet
Exploration and appraisal ('E&A') investments of NOK 660.4 million (post-tax: NOK 145.3 million) (2017: NOK 499.3 million pre-tax, NOK 109.8 million post-tax) were made in 2018. These investments mainly relate to Brasse, Iris / Hades, Rungne and Fogelberg. After exploration write-offs of NOK 178.7 million (2017: NOK 227.4 million) and transfer from E&A to development and production ('D&P') of NOK 81.1 million, the intangible E&A assets increased by NOK 400.6 million to NOK 1 161.3 million (2017: NOK 760.7 million).
D&P investments of NOK 1 681.2 million (2017: NOK 843.3 million) were made in the year, principally reflecting pre-sanction costs on the Oda field, the Njord capital enhancement project and drilling costs on the Tambar, Ula and Brage fields.

The Company recognises the discounted cost of decommissioning when obligations arise. The amount recognised is the present value of the estimated future expenditure determined by local conditions and requirements, net of any amounts carried by third parties. At 31 December 2018 the Company had decommissioning provisions of NOK 2 169.9 million (2017: NOK 2 024 million). The minor increase in the provision is mainly due to movement in decommissioning cost estimates. Even though some of the decommissioning expenditure have started, most of the spending is scheduled to be incurred from 2025 to 2035.

Cash flow
Closing cash was NOK 562.8 million (2017: NOK 440.9 million). DNO NSN benefits significantly from an exploration financing credit facility ('EFF') of NOK 700 million for provision of 75% (as described above) of its net exploration costs that are eligible for the tax refund on a cash flow basis, such that only 25% of this expenditure is funded from Company equity. The EFF loan is repaid when the tax rebate is received in November of the year following the related expenditure. In November 2018 the Company received the tax rebate for 2017 of NOK 392.2 million plus NOK 1.7 million in interest, most of which was used to repay the 2017 utilisations of the EFF.

Following the change of control in 2019, there was a reduction in the reserve-based lending facility as three out of ten banks exited the facility. The revised total facility amount is USD 245 million (from previously USD 350 million) which is available for both debt and issuance of letters of credit. The facility will amortise over the loan life with the latest possible maturity date being 31 December 2025. At 31 December 2018 the calculated borrowing base amount was USD 298.5 million, of which NOK nil was drawn (2017: NOK nil). The exploration financing facility was also reduced from NOK 1,000 million to NOK 700 million.

On 19 February 2019, some bond holders exercised their put rights leading to a repayment of USD 14.3 million on 26 February 2019.

With a combination of the current cash in the business, cash flow from producing assets and headroom in the bank facilities, the Company will be able to fund currently committed capital expenditure of NOK 3 499.8 million (E&A and D&P).

OPERATIONAL REPORT

Exploration and Appraisal
In 2018, DNO NSN participated in five wells of which the Iris / Hades exploration well and the Fogelberg appraisal well were discoveries and the Rungne, Cassidy and Brasse East wells were dry. In 2019, the drilling programme continues and includes, amongst others, the Pabow, Bergknapp (formerly Yoshi) exploration wells and the Iris / Hades appraisal well.

Licence round awards
In January 2018, DNO NSN was awarded eight new exploration licences, including four operatorships, under the 2017 Norwegian APA Licence Round on the Norwegian Continental Shelf. Three of the licences target new plays, namely the Blue Libelle prospect on the Tampen Spur on the north-western margin of the North Viking Graben (DNO NSN operator), the Århus prospect in the Åsta Graben, north of the Trym Field and the Skræmetindan prospect on the Cod Terrace in the Central Graben.
A further eight exploration licences were awarded in 2019 under the 2018 Norwegian APA. Please refer to Note 27 for further information.

Production
DNO NSN achieved net average economic production of 9,400 boepd (2017: 10,973 boepd). This reduction was attributable to three main factors: the Tambar oil field, which was off line for much of Q1 2018, whilst the two new infill wells were drilled, a temporary loss of production from the Trym gas field caused by a technical fault in the downstream export system and the shut-down of Oselvar in March 2018, as planned.

Development projects
*Oda (*DNO NSN *15%)*: this field is being developed as a subsea tie back to the Ula platform (DNO NSN 20%),. First oil was achieved on 16 March 2019, with gross plateau production expected to be 35,000 boepd (5,250 boepd net to DNO NSN). Production from the Oselvar field (DNO NSN operated 55%) ceased production in March 2018 (see above) to allow the Oda tie-in to be undertaken.

*Njord and Bauge (*DNO NSN *7.5%)*: the Njord Future project encompasses refurbishment of the Njord facilities to allow continued production and development from the Njord and Hyme fields and upgrading and modifications to enable the Bauge and Fenja fields to be tied back. In December 2018, a swap deal with Equinor was signed regarding these projects, ref. note 25.

*Fenja (*DNO NSN *7.5%)*: this development, which is progressing on schedule and within budget, is in the Greater Njord Area and comprises three horizontal production wells, one gas injection well and two water injection wells, tied back to the Njord A floating production facility for processing and export via the Njord B FSO (floating storage and offloading vessel).

Brasse (DNO NSN *50%*): the Brasse project is incorporating the results of the appraisal well drilled as a side track to the Brasse East exploration well. In parallel, technical and commercial work has continued for the selection of the preferred host facility.

Reserves & Resources
Reserves
The Company's internal estimate of Proven and Probable (2P) Reserves at 1 January 2019, prepared in accordance with the Petroleum Resource Management System guidelines endorsed by the Society of Petroleum Engineers, World Petroleum Congress, American Association of Petroleum Geologists and Society of Petroleum Evaluation Engineers, is 86.1 million barrels of oil equivalent ('mmboe') (1 January 2018 110.2 mmboe). The 22% decrease in reserves over the year is mainly accounted for by 2018 production (3.4 mmboe) and the sale of a 17.5% interest in the Fenja field (16.4 mmboe).

Reporting of payments to governments
This report is prepared in accordance with the Norwegian Accounting Act § 3-3 d), which was a new requirement applicable from the fiscal year 2014. It states that companies engaged in activities within the extractive industries shall annually prepare and publish a report containing information about their payments to governments at country and project level. The Ministry of Finance has issued a regulation (F20.12.2013 nr 1682 –" the regulation") stipulating that the reporting obligation only apply to reporting entities above a certain size and to payments above certain threshold amounts. In addition, the regulation stipulates that the report shall include other information than payments to governments, and provides more detailed rules with regard to definitions, publication and reporting.

The report contains information for the activity in the whole fiscal year 2018 for DNO NSN. The management of DNO NSN has applied judgment in interpretation of the wording in the regulation with regard to the specific type of payment to be included in this report, and on what level it should be reported. When payments are required to be reported on a project-by-project basis, it is reported on a field-by-field basis. Only gross amounts on operated licences are reported, as all payments within licences where DNO NSN is a non-operator will normally be cash calls transferred to the operator and will as such not be payments to the government. Since DNO NSN has no activities within the extractive industries outside the Norwegian Continental Shelf, only payments to the Norwegian government is deemed to be within the scope of this reporting.

Reporting of payments
The regulation § 2 no.5 defines the types of payments subject to reporting. In the following sections, only those applicable to DNO NSN are described.

Income tax
Income tax is calculated and paid/received by DNO NSN. As described in the tax note (Note 11 to the financial statements), DNO NSN was in a tax receiving position in 2018 and therefore no payments were made to the Norwegian government during the year. The tax receivable during 2018 is related to income tax from 2017. Total tax payments received were NOK 393.9 million (2017: NOK 442.7 million). In addition, interest on tax receivables amounted to NOK 1.8 million (2017: NOK 1.8 million).

Environmental Taxes
For 2018 NOK 6.5 million was paid for operated licences in Environmental Taxes (2017: NOK 4.7 million).

Area fee
For 2018 NOK 7.3 million was paid in Area Fee (2017: NOK 5.36 million). Other information is required to be reported when companies are required to report payments in accordance with the Norwegian

Accounting Act § 3-3 d. It is also mandatory to report on investments, sales income, production volumes and purchases of goods and services in the country of which companies have activities within the extractive industries. As mentioned above, DNO NSN operates on the Norwegian Continental Shelf only. These reporting requirements are therefore deemed to be met by the financial statements. Please see the Income, Cash Flow statements and notes to the Financial Statements.

Research and development
The Company's target is to create value through generation of prospects, exploration, development and production on the Norwegian Continental Shelf. To achieve this target, the Company uses high technology and software and has set a goal to be a leading company in several key technologies. Technology within exploration, drilling, development and production undergoes a continuous development process, and the Company participates in several technology projects in connection with licence work. The Company also participates in various research and development projects with both research institutions and universities ranging from short to long term projects. The Company is involved in research into two new geophysical prospecting methods and has made investments since 2013 to increase our understanding in the application of these methods. The company also focuses on increasing our understanding of geological basin development through time, and its control on depositional environments and reservoir development. In 2017 we joined a study related to subsea systems that will continue in 2019 and we also developed and tested a world's first wireless communication using electromagnetic (EM) signals in a well and side track.

Health, Safety and Environment
For activity where the Company is operator, no severe personal injuries, high potential incidents, or incidents that have caused impact on the external environment occurred in 2018. However, the majority of DNO NSN activities are undertaken in licences where other companies are operator, with DNO NSN as a non-operating partner. To ensure safe operations and to comply with the regulations, DNO NSN follows up on its operators, contractors and partners through our audit, review and verification activities. These activities are based on risk evaluations. There have been no serious incidents on partner operated activity during 2018.

To ensure continuous improvement, experiences from our operated and non-operated activities are systematically captured, as required, by our integrated Environment, Health and Safety Business Management System ('BMS') and implemented in work processes and procedures. The BMS is consistent with the internationally recognised requirements for Quality, Health, Safety and Environmental management (ISO 9001, OHSAS 18001 and ISO 14001). The BMS has been successfully verified for compliance with the OSPAR Recommendation 2003/5 (based on ISO14001:2015) for Environmental Management over several years. An internal training program ensures familiarity with the BMS. On this basis; DNO NSN is currently qualified and accepted as an operator in Norway.

Occupational health
The Company operates from modern offices in Stavanger, and the working environment in the Company throughout 2018 has been very good. As a result of growth and commitment to provide a healthy and safe workplace, a work environment committee (WMC) was established in 2017. The WMC meets quarterly to discuss the health and wellbeing of the workforce. DNO NSN provides private medical cover for employees, which includes counselling for work/life issues such as stress and bereavement. The Company also provides pensions, insurance, income protection benefits and contributes towards gym memberships for employees.

During 2018, the Company has actively worked on creating a safe and effective working environment utilising the employees' skills and further developing their professional competence. This is followed up by active maintenance of the DNO NSN training portal, which ensures there is an overview of DNO NSN's present competence as well as ensuring the required competence is in place.

At the end 2018, the Company had 64 employees. The Company has achieved a low level of absence due to illness through the year. The sick leave was as low as 2.0% in 2018.

Gender Equality
Year end 2018, the percentage of female employees was 39% of total staff. The percentage of women in management positions was 33%.

Discrimination
The Company's policy is aimed to promote gender equality, ensure equal opportunities and rights, and to prevent discrimination due to ethnicity, national origin, descent, skin colour, language, religion and

faith. At the end of 2018, the company employed staff/long term consultants with origin from many different countries. Important areas in which DNO NSN works conscientiously to achieve these objectives include recruitment, salary and working conditions, promotion, development opportunities and protection against harassment. The Company aims to be a workplace with no discrimination due to reduced functional ability and aims to have office facilities, which allow as many as possible to utilise the various functions. Individual adjustments of workplace and responsibility will be made for employees with reduced functional ability

Oslo, 27 June 2019

Name: Bjørn Kenneth Dale
Chairman of the Board

Name: Christopher Thomas Hyde Spencer
Board member

Name: Nicholas John Paul Whiteley
Board member

Income statement

for the year ended 31 December 2018

	Notes	**2018 NOK000**	**2017 NOK000**
Revenue	3	1 940 023	1 260 258
Production cost	4	-1 011 211	-620 997
Depreciation	4,12	-215 645	-292 067
Gross profit/loss		713 167	347 195
Other income		227 401	194 647
Asset impairment	5,12	-79 700	-34 700
Net gain on disposal of property, plant and equipment		282 102	77 470
Exploration and evaluation expenses	10	-255 932	-263 497
Administrative expenses	6,8,9,19	-109 197	-27 389
Operating profit/loss		777 841	293 726
Finance revenue	7	27 972	5 746
Finance costs	7	-140 592	-203 929
Profit/loss on ordinary activities before tax		665 222	95 543
Tax(-)/Tax credit	11	-275 759	-70 522
Profit/Loss for the year attributable to equity holders of the parent		389 463	25 021

Statement of other comprehensive income

for the year ended 31 December 2018

	Notes	**2018 NOK000**	**2017 NOK000**
Profit/(-loss) for the year		389 463	25 021
Total comprehensive profit/(-loss) for the year		389 463	25 021

Balance sheet – assets

at 31 December 2018

	Note	**2018 NOK000**	**2017 NOK000**
Non-current assets			
Property, plant and equipment	12	9 294	7 292
Exploration, development and producing assets	12	3 665 999	2 617 869
Goodwill		82 098	82 098
Deferred tax asset	11	529 080	759 971
Total Non-current assets		4 286 472	3 467 231
Current assets			
Trade and other receivables	13	1 065 029	1 126 609
Current tax receivable	11	272 754	394 484
Cash and cash equivalents	14	562 795	440 982
Assets held for sale	25	782 840	515 120
Total Current assets		2 683 417	2 477 195
Total assets		6 969 888	5 944 426

Balance sheet – equity

at 31 December 2018

	Note	**2018 NOK000**	**2017 NOK000**
Share capital			
Equity share capital	26	10 000	10 000
Share premium		195 050	195 050
Other reserves		113 297	104 690
Retained earnings		549 595	160 132
Total equity		867 942	469 872
Non-current liabilities			
Other long-term liabilities	17	2 249 263	1 721 625
Provisions	16	2 169 909	2 024 357
Liabilities directly associated with assets held for sale	25	340 670	350 003
Total Non-current liabilities		4 759 842	4 095 985
Current liabilities			
Liabilities credit institution	15,17	155 000	365 000
Trade and other payables	15,17	1 187 104	1 013 569
Total Current liabilities	15	1 342 104	1 378 569
Total equity and liabilities		6 969 888	5 944 426

Cash flow statement

for the year ended 31 December 2018

	Note	2018 NOK000	2017 NOK000
Operating activities			
Profit/-loss before tax		665 222	95 543
Depreciation charges	12	219 347	295 517
Asset impairment	5	79 700	34 700
Exploration asset write off	12	178 698	227 363
Fair value of share-based payments		8 607	14 952
(Increase)/decrease in trade and other receivables		-206 143	-511 272
Increase/(decrease) in trade and other payables		309 754	570 663
Increase/(decrease) in tax payables		-44 868	394 484
Interest received		-4 189	-3 317
Cash outflow from operating activities		1 210 317	1 118 633
Taxes received/ (-paid) for the period		121 730	48 269
Net cashflow from operating activities		1 332 047	1 166 901
Investing activities			
Expenditure on intangible assets and Property, plant and equipment		-2 347 333	-1 347 632
Transfers and sales		819 460	
Other shares		-	2 270
Net cashflow from investing activities		-1 527 873	- 1 345 362
Financing activities			
Long term borrowings (net)		527 638	340 539
Short term borrowings (net)		-210 000	-15 000
Net cashflow from financing activities		317 638	325 539
Net increase/-decrease in cash and cash equivalents	14	121 812	147 079
Cash and cash equivalents at the beginning of the year	14	440 982	293 904
Cash and cash equivalent at the end of the year	14	562 795	440 982

Changes in equity

for the year ended 31 December 2018

	Equity share capital NOK000	Share premium account NOK000	Retained earnings NOK000	Other comprehensive income NOK000	Total NOK000
As at 1 January 2017	**10 000**	**195 050**	**131 064**	**86 214**	**422 328**
Share based payment reserve	-	-	4 047	18 476	22 523
Profit for the period	-	-	25 021	-	25 021
As at 31 December 2017	**10 000**	**195 050**	**160 132**	**104 690**	**469 872**
Share based payment reserve	-	-		8 607	8 607
Profit for the period	-	-	389 463	-	389 463
As at 31 December 2018	**10 000**	**195 050**	**549 595**	**113 297**	**867 942**

Notes

1 Authorisation of financial statements and statement of compliance with IFRS

The financial statements of DNO North Sea (Norge) AS for the year ended 31 December 2018 have been prepared in accordance with International Financial Reporting Standards (IFRS). The Company has used a simplified application of these international accounting standards in accordance with the Norwegian Accounting Act §3-9.

2 Accounting policies

Basis of preparation
The financial statements have been prepared under the historical cost convention, except for certain fair value adjustments required by those accounting policies. The financial statements are presented in Norwegian Kroner (NOK) and all values are rounded to the nearest thousand (NOK000) except when otherwise indicated.

The Board believe that the Company has adequate resources to continue its operations for the foreseeable future. Thus, the Board continue to adopt the going concern basis of accounting in preparing the financial statements.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2018.

Accounting judgements estimates
The accounting policies make use of estimates and judgements in the following areas; Impairment, Derivatives, Depreciation, Decommissioning and Share based payments. These are described in more detail in the relevant accounting policies.

Foreign currencies
The functional currency for the Company is Norwegian Kroner.

Transactions in foreign currencies during the year are recorded in the functional currency at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities are translated at the rate ruling on the balance sheet date and any gains and losses on translation are reflected in the Income Statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Joint arrangements
Judgement is required to determine when the Company has joint control over an arrangement, which requires an assessment of the relevant activities and when the decisions in relation to those activities require unanimous consent. The Company has determined that the relevant activities for its joint arrangements are those relating to the operating and capital decisions of the arrangement, including the approval of the annual capital and operating expenditure work program and budget for the joint arrangement, and the approval of chosen service providers for any major capital expenditure as required by the joint operating agreements applicable to the entity's joint arrangements. Judgement is also required to classify a joint arrangement. Classifying the arrangement requires the Company to assess its rights and obligations arising from the arrangement. Specifically, the Company considers:

- The structure of the joint arrangement and whether it is structured through a separate vehicle
- When the arrangement is structured through a separate vehicle, the Company also considers the rights and obligations arising from:
    - The legal form of the separate vehicle
    - The terms of the contractual arrangement
- Other facts and circumstances are considered on a case by case basis

This assessment often requires significant judgement. A different conclusion about both joint control and whether the arrangement is a joint operation or a joint venture, may materially impact the accounting treatment. A complete list of the Company's Joint Operations is provided in note 29.

A Joint Operation is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities, relating to the arrangements. In relation to its interests in joint operations, the Company recognises its:

- Assets, including its share of any assets held jointly;
- Liabilities, including its share of any liabilities incurred jointly;
- Revenue from the sale of its share of the output arising from the joint operation;
- Share of the revenue from the sale of the output by the joint operation; and
- Expenses, including its share of any expenses incurred jointly.

All licences held on the Norwegian Continental Shelf may not be assessed as joint arrangements under the definition in IFRS 11 if there are no joint control. Such licences are recognised by the Company`s share of related expenses, assets, liabilities and cash flows on a line by line basis in the financial statements in accordance with applicable IFRSs.

Revenue
Management have assessed the sale of crude oil, gas or condensate and determined that these represent a single performance obligation, being the sale of barrels equivalent on collection of a cargo or on delivery of a commodity into an infrastructure. Revenue will accordingly be recognised for this performance obligation when control over the corresponding commodity is transferred to the customer. Payment terms are generally within 30 days from date of invoice.

Interest income is recognised on an accruals basis using the effective interest method.

Finance costs and debt
Finance costs of debt instruments are allocated to periods over the term of the related instrument at a constant rate on the carrying amount. Arrangement fees and issue costs are deducted from the proceeds on initial recognition of the liability and are amortised and charged to the Income Statement as finance costs over the term of the instrument.

Oil and gas expenditure – exploration and evaluation assets
Capitalisation
Pre-acquisition costs on oil and gas assets are recognised in the Income Statement when incurred. Costs incurred after rights to explore have been obtained, such as geological and geophysical surveys, drilling and commercial appraisal costs and other directly attributable costs of exploration and appraisal including technical and administrative costs are capitalised as intangible exploration and appraisal ("E&A") assets. The assessment of what constitutes an individual E&A asset is based on technical criteria but essentially either a single licence area or contiguous licence areas with consistent geological features are designated as individual E&A assets.
E&A costs are not amortised prior to the conclusion of appraisal activities. Once active exploration is completed, the asset is assessed for impairment. If commercial reserves are discovered then the carrying value of the E&A asset is reclassified as a development and production ("D&P") asset, following development sanction, but only after the carrying value is assessed for impairment and where appropriate its carrying value adjusted. If commercial reserves are not discovered the E&A asset is written off to the Income Statement.

Impairment
The Company's oil and gas E&A assets are analysed on an asset by asset basis and a review of the oil and gas E&A portfolio is undertaken by management on a regular basis. E&A assets are written off where active exploration has been completed and commercial reserves have not been discovered. E&A assets are also reviewed for impairment when circumstances arise which would indicate that the carrying value of such E&A assets is no longer viable. Such circumstances may include the drilling of a non-commercial well on the asset or such similar negative results of other geological and geophysical activities. Such write offs are expensed to the Income Statement in full.

Oil and gas expenditure – development and production assets

Capitalisation

Costs of bringing a field into production, including the cost of facilities, wells and sub-sea equipment together with E&A assets reclassified in accordance with the above policy, are capitalised as a D&P asset. Normally each individual field development will form an individual D&P asset but there may be cases, such as phased developments, or multiple fields around a single production facility when fields are grouped together to form a single D&P asset.

Business Combinations and Goodwill

In order to consider an acquisition as a business combination, the acquired asset or group of assets must constitute a business. IFRS 3 describes a business as an integrated set of activities and assets conducted that is capable of being managed for the purpose of providing a return to investors. The combination consists of inputs and processes, which when combined have the ability to create outputs.

Acquired businesses are included in the financial statements from the transaction date, which is defined as the date on which the Company achieves control over the assets. Comparative figures are not adjusted for acquired, sold or liquidated businesses.

Acquisition cost equals the fair value of assets used as consideration, including contingent consideration, equity instruments issued, and liabilities assumed in connection with the transfer of control. Acquisition cost is measured against the fair value of the acquired assets liabilities assumed. Identifiable intangible assets are included in connection with acquisitions if they can be separated from other assets or meet the legal contractual criteria. When calculating the fair value, the tax implications of any re-evaluations are taken into consideration.

If the acquisition cost at the time of the acquisition exceeds the fair value of the acquired net assets goodwill arises. In contrast, if the fair value of identifiable assets exceeds the acquisition cost on the acquisition date, the excess amount is taken to the income statement.

Goodwill is allocated to the cash generating units or groups of cash generating units that are expected to benefit from the business combination. The allocation of goodwill may vary depending on the basis for its initial recognition.
The goodwill recognised is related to the requirement to recognise deferred tax for the difference between the assigned fair values and the related tax base ("technical goodwill"). The valuation at fair value of licences is based on cash flows after tax, which is because the licences are sold in an after-tax market based on decisions made by the Norwegian Ministry of Finance pursuant to the Petroleum Taxation Act Section 10. The purchaser is therefore not entitled to deduction for the consideration with tax effect through depreciation. In accordance with IAS 12 (paras 15 and 24) a provision is made for deferred tax corresponding to the difference between the acquisition cost and the transferred tax depreciation basis. The offsetting entry to this deferred tax is goodwill. Hence goodwill arises as a technical effect of deferred tax.

Technical goodwill is tested for impairment separately for each cash generating unit which gives rise to technical goodwill.

The estimation of fair value and goodwill may be adjusted up to 12 months after the acquisition date if new information has emerged about facts and circumstances that existed at the time of the acquisition and which, had they been known, would have affected the calculation of the amounts that were included from that date.

Acquisition related costs, except costs to issue debt or equity securities, are expensed as incurred.

Depreciation

All costs relating to a development are accumulated and not depreciated until the commencement of production. Depreciation is calculated on a unit of production basis based on the proven and probable reserves of the asset. Any re-assessment of reserves affects the depreciation rate proportionately. Significant items of plant and equipment will normally be fully depreciated over the life of the field. However, these items are assessed to consider if their useful lives differ from the expected life of the D&P asset and should this occur, a different depreciation rate would be charged.

The key areas of estimation regarding depreciation and the associated unit of production calculation for oil and gas assets are:

- recoverable reserves; and
- future capital expenditure

Impairment
A review is carried out for any indication that the carrying value of the Company's D&P assets may be impaired. The impairment review of D&P assets is carried out on an asset by asset basis and involves comparing the carrying value with the recoverable value of an asset. The recoverable amount of an asset is determined as the higher of its fair value less costs to sell and value in use. The value in use is determined from estimated future net cash flows. Fair value less cost to sell is determined from estimated future net cash flows applying market participants' assumptions, unless an observable market value is available. Any additional depreciation resulting from the impairment testing is charged to the Income Statement.

The future cash flows are adjusted for risks specific to the cash-generating unit and are discounted using a pre-tax discount rate. The discount rate is derived from the Company's post-tax weighted average cost of capital and is adjusted where applicable to take into account any specific risks relating to the country where the cash-generating unit is located, although other rates may be used if appropriate to the specific circumstances. In 2018, the rate used was 7.5% nominal (2017: 7.5% nominal). The discount rates applied in assessments of impairment are reassessed each year.

Key assumptions used in the value-in-use calculations
The calculation of value-in-use for oil and gas assets under development or in production is most sensitive to the following assumptions:

- production volumes / recoverable reserves;
- commodity prices;
- fixed and variable operating costs;
- capital expenditure; and
- discount and inflation rates.

Production volumes/recoverable reserves
Annual estimates of oil and gas reserves are generated internally by the Company's reservoir engineers. These are reported annually to the Board in conjunction with an externally generated Competent Persons Report ('CPR'). The self-certified estimated future production profiles are used in the life of the fields which in turn are used as a basis in the value-in-use calculation.

Commodity prices
An average of published forward prices and the long-term assumption for natural gas and Brent oil are used for the first three years of future cash flow and an inflated real price thereafter, in accordance with the Company's corporate assumptions. Field specific discounts and prices are used where applicable.

Fixed and variable operating costs
Typical examples of variable operating costs are pipeline tariffs, treatment charges and freight costs. Commercial agreements are in place for most of these costs and the assumptions used in the value-in-use calculation are sourced from these where available. Examples of fixed operating costs are platform costs and operator overheads. Fixed operating costs are based on operator budgets.

Capital expenditure
Field development is capital intensive and future capital expenditure has a significant bearing on the value of an oil and gas development asset. In addition, capital expenditure may be required for producing fields to increase production and/or extend the life of the field. Cost assumptions are based on operator budgets or specific contracts where available.

Discount and inflation rates – Discount rates reflect the current market assessment of the risks specific to the oil and gas sector and are based on the weighted average cost of capital for the Company. Where appropriate, the rates are adjusted to reflect the market assessment of any risk specific to the field for which future estimated cash flows have not been adjusted. The Company has applied a discount rate of 7.5% for the current year (2017: 7.5%). The inflation rate used in the calculation was 2.0% (2017: 2.0%).

Sensitivity to changes in assumptions
Following our review of the above assumptions and having performed a sensitivity analysis on the impairment reviews performed we conclude that commodity prices are the most sensitive assumption. A 10% change in commodity prices would have no effect on the impairment charge in Norway.

Oil & gas expenditure – acquisitions and disposals
Commercial transactions involving the acquisition of a D&P asset in exchange for an E&A or D&P asset are accounted for at fair value with the difference between the fair value and cost being recognised in the Income Statement as a gain or loss. When a commercial transaction involves a D&P asset and takes the form of a farm-in or farm-out agreement, the premium expected to be paid/received is treated as part of the consideration.

Fair value calculations are not carried out for commercial transactions involving the exchange of E&A assets. The capitalised costs of the disposed asset are transferred to the acquired asset. Farm-in and farm-out transactions of E&A assets are accounted for at cost. Costs are capitalised according to the Company's cost interest (net of premium received or paid) as costs are incurred.

Proceeds from the disposal of an E&A asset, or part of an E&A asset, are deducted from the capitalised costs and the difference recognised in the Income Statement as a gain or loss. Proceeds from the disposal of a D&P asset, or part of a D&P asset, are recognised in the Income Statement, after deducting the related net book value of the asset.

Decommissioning
The Company recognises the discounted cost of decommissioning when the obligation to rectify environmental damage arises. The amount recognised is the present value of the estimated future expenditure determined by local conditions and requirements. A corresponding property, plant and equipment asset of an amount equal to the provision is created unless the associated activity resulted in an Income Statement write-off. This asset is subsequently depreciated as part of the capital cost on a unit of production basis. Any change to the present value of the estimated decommissioning cost is reflected as an adjustment to the provision and the property, plant and equipment asset. The unwinding of the discount on the decommissioning provision is included as an interest expense.

Where the Company has an asset with nil carrying value, and subsequently on the basis of new information makes an increase to the discounted cost of decommissioning then such increase is taken to the Income Statement.

The key areas of estimation regarding decommissioning are:

- expected economic life of field, determined by factors such as
    - field reserves and future production profiles – see *Review of Activities* section
    - commodity prices
- Inflation rate 2% (2017 2%);
- nominal discount rate 4% (2017: 5%); and
- decommissioning cost estimates (and the basis for these estimates)

See Note 16 Provisions in respect of decommissioning obligations and explanation of discount rates.

Under/Over lift
Lifting arrangements for oil and gas produced in certain fields are such that each participant may not receive its share of the overall production in each period. The difference between cumulative entitlement and cumulative production less stock is 'underlift' or 'overlift'. Underlift and overlift are valued at market value and included within debtors ('underlift') or creditors ('overlift'). Movements during an accounting period are adjusted through cost of sales, such that gross profit is recognised on an entitlement basis. The Company's share of any physical stock is accounted for at the lower of cost and net realisable value.

Other property, plant & equipment

Property, plant and equipment other than oil and gas assets are stated in the Balance Sheet at cost less accumulated depreciation. Depreciation is provided to write off the cost less the estimated residual value of the tangible fixed asset on a straight-line basis over their estimated useful lives as follows:

- IT equipment 3 years
- Other equipment 5 years

Financial assets
Financial assets which are trade investments of the Company are accounted for at fair value unless this cannot be reliably re-assessed. Foreign currency gains and losses on such loans to subsidiary undertakings are recognised in the Income Statement.

Investments
Investments in subsidiaries are included in the financial statements at cost less provisions for impairment.

Trade creditors
Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Inventories
The Company's share of any physical stock is accounted for at the lower of cost and net realisable value.

Taxation
The Income Statement tax charge comprises both current and deferred tax. Tax is charged or credited in the Income Statement except on items related directly to equity, in which case it is recognised in equity.

Current tax liabilities are payable or receivable on income for the year and are based on rates of tax enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided in full on temporary differences between the carrying value of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, with the following exemptions:

- where the temporary differences arise on initial recognition of an asset or liability in a transaction (other than a business combination), that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised or alternatively when recovery is probable under the tax regulation

In accordance with special regulations in the Petroleum Tax Act, the Company can request the repayment of the tax value of exploration expenditure from the State. The effect of the uplift, which is a particular deduction in the special tax basis for the offshore industry, is taken into consideration in the tax calculation as a temporary difference. Acquired uplift is capitalised.

Key assumptions in determining the recoverability of the deferred tax asset
In considering the recoverability of the deferred tax asset in respect of carried forward tax losses at the year end, the Board has considered that:

1. The current forecasts are based on the same price assumptions used in the 2018 impairment tests, which are deemed to be reasonable; and
2. The forecasts are derived from operator budgets and Life of Field models which are deemed to be reasonable.

3. With regard to the Norwegian carried forward tax losses, the Norwegian Government refund any non-utilised tax losses if the activity of the Company ceases and therefore the asset is recoverable.

Pensions
On 1 November 2015 the Company changed the pension arrangements in Norway where up until that date it had been operating both a defined benefit scheme up to a certain limit and above that a defined contributions scheme. The defined contributions scheme was enhanced, as described below, to replace the defined benefits scheme.

The Norwegian defined benefit scheme, which was in place until 31 October 2015, was designed to provide a pension, from 67 years of age, equivalent to 66% of base salary up to 12G. All staff employed up until 2015 participated in this scheme.

From 1 November 2015, following the closure of the defined benefit scheme, the Company made one off compensation payments to certain Norwegian employees to address any shortfall arising from the transfer to the expanded defined contribution scheme where the Company contributes to a pension scheme on behalf of the employee up to 25.1% of base salary limit up to 12G.

The existing defined contributions scheme, which continued in operation for all Norwegian staff throughout the period, involves the Company making the following contributions to the employees: 10% of base salary above 12G; and for certain other senior managers the Company a further 10% of base salary above 17G.

Defined contributions above the limit of 12G are a taxable benefit to the employee, and the Company meets the associated taxation on behalf of the relevant employees.

Trade and other receivables
Trade and other receivables, which generally have 30 terms, are shown at face value less any provision for unrecoverable debt. Provision is made when there is objective evidence that the Company will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

Operating leases
Rentals under operating leases are charged to the Income Statement on a straight-line basis over the period of the lease.

Cash and cash equivalents
Cash and short-term deposits in the Balance Sheet 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.

Share based payments
Employees (including senior executives) of the Company receive remuneration in the form of share-based payment transactions, which are equity settled. The cost of equity-settled transactions with employees, for awards granted after 1 February 2006, is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external valuer using an appropriate pricing model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The Income Statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

The key areas of estimation regarding share-based payments are:

- share price volatility; and
- estimated lapse rates.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense if the terms had not been modified. An additional expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Cash settled transactions relate to phantom options, where employees are entitled to a cash payment equivalent to the gain that would have been made by exercising options at notional price over a notional number of shares and then selling the shares at the date of exercise. The ultimate cost of a cash-settled transaction is the fair value of the cash paid at the settlement date. The cumulative cost recognised until settlement date is a liability on the face of the balance sheet and not a component of equity. The fair value of the liability is determined by an external valuer using an appropriate pricing model. All changes in the liability are recognised in profit or loss.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Any shares issued under the above is shares in parent company.

Held for sale assets
Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sales transaction rather than through continuing use. The condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Interest bearing loans and borrowings
Interest bearing loans and borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are amortised over the life of the facility. Borrowing costs are stated at amortised cost using the effective interest method.

The effective interest method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or a shorter period to the net carrying amount of the financial liability where appropriate.

Interest on borrowing directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. The Company has not borrowed against qualifying assets and has not capitalised any interest costs.

Derivative financial instruments and hedging
The Company uses derivative financial instruments to manage certain exposures to fluctuations in foreign currency exchange rates, interest rates and commodity prices in addition to trading purposes. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives relating to unquoted equity instruments are carried at cost where it is not possible to reliably measure their fair value subsequent to initial recognition. Derivatives are carried as assets when the fair value is positive and liabilities when the fair value is negative.

Financial liabilities at fair value through profit or loss are carried on the Balance Sheet at fair value, with realised and unrealised gains or losses arising from changes in fair value recognised in the Income Statement. Derivatives are classified as held for trading and are included in this category. Unrealised gains or losses are calculated by comparing the derivative contract pricing to forward curve data.

Impact of new standards and interpretations

The Company applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2018.

IFRS 15 – Revenue from contracts with customers: IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations and it applies with limited exceptions. IFRS 15 establishes a five –step model to account for revenue arising from contracts with customers and required that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

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 change did not have a material impact on the income statement for the year.

IFRS 9 Financial Instruments: IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

IFRS 16 – Leases: Management have performed an analysis of IFRS 16 Leases and concluded that there is no material impact on the profit after tax in the 2018 Income Statement. Management have analysed all lease contracts and have concluded that a lease liability and associated right of use asset of NOK 11.6 million would need to be recognised. The expected income statement effect for the year ended 31 December 2018 is immaterial.

The Company plans to adopt IFRS 16 using the modified retrospective approach. The Company will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Company will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

All other amendments as noted above are not believed to have a material impact on the financial statements of the Company. The Company will adopt these standards on the date at which they become effective.

The IASB and IFRIC have issued the following standards and interpretations with an effective date after the commencement date of the accounting period for these financial statements:

Title	**Effective date (annual periods beginning on or after)**
IFRS 16 Leases	1 January 2019
Amendments to IFRS 10 and IAS 28: Sale or contribution of assets between an investor and an associate or joint venture	Deferred
Amendments to IAS 28: Long –term interest in associates and joint ventures	1 January 2019
Annual improvements to IFRS 2015-2017 Cycle	1 January 2019
IFRIC 23 Uncertainty over Income Tax Treatments	1 January 2019

3 Revenue

Revenue recognised in the income statement is analysed as follows:

	2018 NOK000	2017 NOK000
Gas sales	369 659	403 890
Oil sales	1 508 985	795 107
Condensate sales	24 001	15 184
Tariff income	37 379	46 077
Total revenue	1 940 023	1 260 258

The Company hedged a proportion of the forecast oil and natural gas production using a variety of hedging instruments and incurred hedging loss, net of costs, of NOK 12.5 million (2017: NOK 14.6 million loss) in the year.

Other income recognised in the income statement is analysed as follows:

	2018 NOK000	2017 NOK000
Hedge Income/(Expence)	-12 461	-14 594
Value adjustments	4 941	11 186
Oda/Oselvar compensation	234 921	198 052
Total income	227 401	194 647

Other income/(expense) relates mainly to compensation income between Oselvar (DNO NSN 55%) and Oda (DNO NSN 15%). Approx. NOK 393 million of the compensation was received during 2018 following Oselvar being taken offline. The PL effect of this compensation booked in 2018 is net NOK 234.9 million. The portion booked to Capex during 2018 is NOK 33.5 million.

4 Cost of sales

Cost of sales recognised in the Income Statement is analysed as follows:

	2018 NOK000	2017 NOK000
Operating costs	-629 580	-596 076
Commercial tariffs	-214 646	-344 916
Over-/(underlift) in the year	-166 985	319 996
Total Production cost	-1 011 211	-620 997
Depreciation, depletion and amortisation	-215 645	-292 067
Total production cost and depreciations	-1 226 856	-913 063

5 Asset impairment/Net gain on disposal of property, plant and equipment

Impairment losses (pre-tax)

The following impairments were done:

	2018 NOK000	2017 NOK000
Ula	-60 200	-
Brage	-19 500	-34 700
Total asset impairment	-79 700	-34 700

The NOK 19.5 million relating to the Brage field impairment charge is principally driven by the technical downward revision in reserves. The NOK 60.2 million impairment charge on Ula is principally driven by the commodity price environment.

Net gain on disposal of property, plant and equipment

	2018 NOK000	2017 NOK000
Pre-tax gain on sale of Jotun	-	77 470
PL433 Fogelberg	-6 262	-
PL586 Fenja	288 364	-
Total revenue	282 102	77 470

Farm down of Fenja to Suncor Energy Norge AS
In February 2018, the Company executed a farm-down agreement with Suncor for Licence PL586 in Norway. Under the terms of the farm-down agreement, upon completion the 16th May 2018, 17.5% of the Company's working interest in the Fenja development located in the Norwegian sea was sold for a cash consideration of USD 54.5 million (excluding tax balances) together with working capital adjustments notably capital expenditure incurred since the effective date of 1 January 2018. The company retained a 7.5% working interest.

Fogelberg equity
Following three separate transactions on the Fogelberg licence PL433, DNO NSN's equity was 15%, with an effective date of 1 January 2018. The Company's equity at 31 December 2017 was 25%.

6 Auditors' remuneration

The Company paid the following amounts to its auditors in respect of the audit of the financial statements and for other services provided to the Company:

	2018 NOK000	**2017 NOK000**
Audit of financial statements (net of VAT)	660	615
Services relating to taxation (net of VAT)	410	879
	1 070	1 494

7 Finance revenue and cost

	2018 NOK000	**2017 NOK000**
Bank and other interest receivable	7 046	3 872
Interest income from tax rebate	1 778	1 874
Unwinding abandonment discount	19 149	-
Total finance revenue	27 972	5 746
Bank interest payable and other loans	-128 825	-70 654
Exchange loss	-11 767	-26 245
Unwinding abandonment discount	-	-107 030
Total finance cost	-140 592	-203 929
Total finance revenue and Costs	-112 620	-198 183

8 Employment costs

The aggregate payroll costs of staff (including management) were as follows:

	2018 NOK000	2017 NOK000
Wages and salaries	105 623	78 191
Social security costs	29 869	15 853
Pension costs	16 336	11 721
Share Options	82 802	20 164
Other salary related costs	11 962	6 572
	246 591	132 500

The number of man-years in the Company (including executive Directors) during the year was as follows:

	2018 No	2017 No
Technical, finance and administration	57.1	50.1

Remuneration of management – Managing Director

	2018 NOK000	2017 NOK000
Wages and salaries and other	6 332	5 452
Pension costs	1 300	854
Other remuneration	177	136
	7 809	6 443

Under the employment contract of the Managing Director who was in position in 2018, there was provision for a bonus of up to 100% of annual salary. However, there was no contractual obligation to pay a bonus to the Managing Director.

No remuneration is paid to the Board from the Company.

9 Specification of administrative expenses

	2018 NOK000	2017 NOK000
Salary and personnel costs	246 591	132 500
Misc. office costs	19 922	21 722
Consultants, legal and professional fees	43 439	39 633
Misc. travel expenses	2 499	1 822
Entertainment and commercial costs	5 930	4 516
Reallocation of time writing	-213 192	-176 444
Other operating costs	304	188
Office asset depreciation	3 702	3 450
	109 197	27 389

10 Exploration costs in the income statement

	2018 NOK000	2017 NOK000
Expensed drilling and exploration costs (note 12)	182 887	227 363
Expenses for licence rounds	32 316	28 058
Seismic data and other exploration costs	40 729	8 076
	255 932	263 497

11 Taxation

Calculation of tax basis	2018 NOK000	2017 NOK000
Profit/(-loss) before taxes	665 222	95 543
Change in temporary differences	-779 932	-683 277
Norm price adjustment	20 554	13 314
Other permanent differences	-281 105	12 939
Onshore Tax loss carry forward	-	28 387
Basis corporate tax refund	-375 262	-533 093
Onshore tax loss added back	-	-28 387
Norm price adjustment exchange	-	-2 909
Hedging gain/loss	-	11 102
Net financial items added back	36 274	53 092
Other	-	6 600
Basis for ST tax (tax refund)	-338 987	-493 596
Taxes payable/receivable (-)	-272 753	-394 484

Specification of tax expenses	2018 NOK000	2017 NOK000
Taxes payable/(-claim refund of tax value for exploration expenses)	-272 753	-394 484
Change deferred tax	551 215	487 021
DT on interest on tax loss carry forward	-6 919	-11 915
Booked against balance sheet in connection with acquisition		-
Deferred Tax asset reversal	3 669	9 066
Other adjustment (derivatives)	-1 332	1 332
Prior year adjustments	1 879	-20 498
Total tax expenses:	275 759	70 522

Deferred tax	**2018 NOK000**	**2017 NOK000**
Capitalised expl costs/producing assets/other assets	- 2 411 820	-1 907 091
Onshore assets	1 651	2 215
Abandonment	2 154 639	1 996
Over/Underlift	-139 002	-176 266
Share options	117 370	113 552
Change of Control	10 177	-
Exchange gain/loss	52 018	-
Derivatives	-3 826	19 325
Tax loss carry forward	-	232 319
Basis for 22% (2017: 23%) corporation tax	19 568	280 757
Deferred tax at 22% (2017: 23%)	**4 305**	**64 574**
Basis for 40% (estimate) corporation/special tax	-75 472	-24 551
Deferred tax at 40%	**-30 189**	**-9 820**
Basis for 22% (2017: 23%) corporation tax (see above)	19 568	280 757
Uplift	640 054	492 479
Derivatives	-48 193	-19 325
Change tax loss carry forward for special tax	-76 501	-71 566
Basis for deferred special tax	534 929	682 346
Deferred tax at 56% (2017:55%)	**299 560**	**375 290**
Other – (derivatives)	**-**	**-1 332**
Deferred tax benefit on future uplift	**887**	**4 074**
Total deferred tax asset/- liability excl. asset held for sale	**274 564**	**432 786**
Asset held for sale	**254 516**	**327 185**
Total deferred tax asset/- liability	**529 080**	**759 971**

The deferred tax asset will be released by the abandonment obligation being effective, offset by the capitalised exploration and producing assets being recognised in the income statement by way of a depletion charge or write off.

Change in tax legislation

During 2018, effective as from 01.01.2019, the tax rates for calculating the corporate and special tax was changed from 23% (corporate tax) and 55% (Petroleum tax) to 22% and 56% respectively.

Calculation of total taxes	**2018 NOK000**	**2017 NOK000**
Profit before taxes	665 222	95 543
Expected tax	-518 873	-74 524
Prior years adjustments	-1 879	20 498
Norm price	1 388	-10 385
Interest of norm price	-5 047	-698
Other permanent differences	218 957	-12 971
Financial items	-41 279	-32 041
Current year uplift	81 436	52 774
Change tax rate	6 919	4 395
Interest on tax loss carry forward	-	707
Deferred tax charge on future uplift	-2 337	-9 066
Derivatives	-15 044	-9 211
Total taxes	**-275 759**	**-70 522**
Effective tax rate	**-41.45%**	**-73.82%**

12 Intangible assets and property, plant & equipment

	Intangible	Property, Plant & Equipment		
	Exploration & evaluation costs NOK000	Development & production costs NOK000	Other NOK000	Total NOK000
At 31 December 2016 and 1 January 2017	1 137 602	1 173 413	5 795	2 316 810
Additions	499 366	843 320	4 947	1 347 633
Write-offs	-227 363	-	-	-227 363
Depreciation charge for year	-	-292 067	-3 450	-295 517
Impairment loss	-	-34 700	-	-34 700
Asset held for sale		-481 702		-481 702
Transfer to D&P	-	648 869	-	648 869
At 31 December 2017 and 1 January 2018	760 736	1 857 133	7 292	2 625 161
Additions	660 620	1 681 197	5 705	2 347 333
Write-offs	-182 886	-	-	-178 698
Depreciation charge for year	-	-215 641	-3 702	-219 343
Impairment loss	-	-79 700	-	-79 700
Asset held for sale	-	481 702	-	481 702
Assets held for sale 2018	-28 750	-712 857		-741 607
Transfer to D&P	-81 123	-478 432	-	-559 555
At 31 December 2018 and 1 January 2019	**1 132 596**	**2 533 402**	**9 294**	**3 675 293**

A provision for decommissioning the oil and gas assets is recognised in full when the related facilities are installed. The extent to which a provision is required depends on the legal requirements for decommissioning, the costs, the timing of work and the discount rate to be applied.

The write-offs in 2018 of NOK 182.8 million (2017: NOK 227.4 million) are of E&A assets where active exploration has been completed and commercial reserves have not been discovered. The E&A assets written off were:

	NOK000
PL405 Cassidy well	35 110
PL740 Brasse Well 31/7-3 S	69 977
PL794 Rosapenna	77 440
Other/corrections	-359
Total Write Offs	182 886

Depreciation charge for 2018 was NOK 215.6 million (2017: NOK 292 million). The depreciation is related to the following fields:

	NOK000
Enoch	58
Glitne	4
Ringhorne East	7 541
Brage	70 639
Ula	69 512
Tambar	67 896
Depreciation charges 2018 - Total	215 641

13 Trade and other receivables

	2018 NOK000	2017 NOK000
Amounts falling due within one year:		
Trade and other receivables	728 303	657 443
Oil and gas underlift	218 826	322 262
Prepayments	166 092	151 339
Derivative Financial Assets	-48 192	-4 435
Total receivables	1 065 029	1 126 609

All amounts in other receivables are not past due date or impaired.

14 Cash and cash equivalents

	2018 NOK000	2017 NOK000
Cash at bank*	562 794	440 980
Cash in hand	1	2
	562 795	440 982

Cash at bank earns interest at floating rates based on daily bank deposit rates.

*Includes NOK 17 727 334 in restricted tax funds (2017: NOK 10 856 357)

15 Trade and other payables and current financial liabilities

	2018 NOK000	2017 NOK000
Amounts falling due within one year:		
Trade payables	-384 796	-179 107
Accrued tax liabilities	-18 591	-15 500
Other payables	-173 314	-261 094
Accruals and deferred income	-610 403	-557 868
Trade and other payables	-1 187 104	-1 013 569
Short-term bank borrowing	-155 000	-365 000
Financial liabilities	-1 342 104	-1 378 569

Exploration Financing Facility (EFF)
This facility, dated 19 December 2016, was granted in favour of DNO North Sea (Norge) AS and has an aggregate commitment of NOK 700 million. In addition to the committed NOK 700 million, a further NOK 500 million is available on an uncommitted accordion basis. Utilisations can be made under the facility up until 31 December 2019. Interest charged on utilisations is based on the NIBOR rate prevailing at the time and a margin of 1.3% (2017: 1.3%). At 31 December 2018, NOK 155 million was utilised under the facility (2017: NOK 365 million). The facility is secured against the annual Norwegian tax rebate under which 78% of all allowable expenditure is repaid to the claimant (together with interest thereon) approximately 11 months after the end of the tax year.

Reserve Based Lending Facility (RBL)

Following the change of control in 2019, there was a reduction in the reserve-based lending facility as three out of ten banks exited the facility. The revised total facility amount is USD 245 million which is available for both debt and issuance of letters of credit. The facility will amortise over the loan life with the latest possible maturity date being 31 December 2025. At 31 December 2018 the calculated borrowing base amount was USD 235.2 million, of which USD nil was drawn (2017: USD nil). Interest charged on utilisations is based on the LIBOR, NIBOR or EUROBOR rates (depending on the currency of the drawdown) plus a margin ranging from 3.0% to 4.0% (2017: 3.0% to 4.0%) (depending on the total facility utilised and the contribution by development assets). At 31 December 2018, DNO North Sea (Norge) AS had utilised USD 14.3 million (USD 11.3 million) (2017: USD 13.9 million (USD 10.3 million) as cover for a Letter of Credit and drawn USD nil (2017: USD nil).

16 Provision

	Decommissioning provision NOK000
At 1 January 2018	2 024 356
New provisions and changes in estimates	177 085
Accretion	-19 149
Other Provisions	-12 384
Total Provisions at 31 December 2018	2 169 909

	2018 NOK000
Glitne	62
Enoch	3 820
Ringhorne East	9 144
Hyme	33 202
Njord	32 500
Brage	227 743
Ula	899 309
Tambar	467 146
Trym	231 599
Oselvar	190 406
Oda	74 977
Decommissioning Provision total at 31 December 2018	2 169 909

Decommissioning

The total decommissioning provision of 2.2 billion NOK ('BNOK') (2017: BNOK 2.0) relates primarily to the Company's production and development facilities. The decommissioning provision is recorded as the Company's share of the decommissioning cost expected to be incurred. These costs are expected to be incurred at various intervals over the next 18 years. The economic life and the timing of the decommissioning liabilities are dependent on Government legislation, commodity prices and the future production profiles of the production and development facilities. In addition, the costs of decommissioning are subject to inflationary changes in the service costs of third parties.

17 Financial instruments, financial risk factors and capital management

(a) Market risk
Market risk is the risk arising from possible market price movements and their impact on the future performance of the business. The Company is currently exposed to commodity price risks in the form of oil and gas prices, movement in foreign currency exchange rates and interest rates. The Company is exposed to movement in foreign currency exchange rates and interest rates.

(i) Commodity price risk
The Company is exposed to commodity price risk. Where and when appropriate the Company will put in place suitable hedging arrangements to mitigate the risk of a fall in commodity prices. At December 2018, the Company had entered into hedging contracts covering approximately 0% of 2019 total expected gas production (on a post-tax production basis). 28% of oil production was hedged in 2019 on a post-tax basis as at 31 December 2018. In line with the policy in existence in 2018, approximately 81% of post-tax production was hedged for the Company in 2018. The realised hedging losses was NOK 12.5 million (2017: NOK 14.6 million).

(ii) Foreign currency exchange risk
The Company as potential currency exposures in respect of items denominated in foreign currencies relating to transactional exposure in respect of operating costs and capital expenditure incurred in currencies other than the functional currency of operations. Currency risk in respect of non-functional currency expenditure is reviewed by the Board. There is no currency hedging arrangement in place.

(iii) Interest rate risk
The Company is exposed to interest rate risks through the bank loans in Norway (see note 15 for terms).

(b) Credit risk
Credit risk is the risk that a customer or partner fails to pay amounts due causing financial loss to the Company. The Company has very limited exposure to such credit risk and has put procedures in place to mitigate such risks.

(c) Liquidity risk
Liquidity risk is the risk that sources of funding for the Company's business activities are not available. As a business, which primarily focuses on oil and gas exploration and appraisal, the primary source of funding of the Company's activities is borrowing. The Board always ensures that there is sufficient funding available before committing to any significant expenditure.

The table below shows the maturity analysis of the Company's financial liabilities.

31 December 2018	On demand NOK000	Less than 3 months NOK000	3 to 12 months NOK000	1 to 5 years NOK000	>5 years NOK000	Total NOK000
Trade and other payables	-	1 187 104	-	2 249 263	-	3 436 368
Short-term bank borrowing	-	-	155 000	-	-	155 000

31 December 2017	On demand NOK000	Less than 3 months NOK000	3 to 12 months NOK000	1 to 5 years NOK000	>5 years NOK000	Total NOK000
Trade and other payables	-	1 013 569	-	1 721 625	-	2 735 194
Short-term bank borrowing	-	-	365 000	-	-	365 000

Capital Management
As a major part of the Company's focus has been on exploration, equity has been the principal form of funding. However, the Company's policy is to utilise debt where possible. The EFF banking facility has been arranged in Norway to bridge the tax rebate receivable and the RBL banking facility is in place to finance operations and further growth in the business.

18 Pension scheme

The Company is obliged to have a pension scheme according to the Norwegian Act of Compulsory Lifecycle Fund ("lov om obligatorisk tjenestepensjon"). The Company's pension scheme satisfies the requirements of the law.

For Norwegian employees with a base salary above 12G the Company makes contributions to defined contributions schemes nominated by employees for which the pension cost for the year amounted to NOK 5 349 077 (2017: NOK 2 030 559). There were no prepaid or accrued contributions at either the beginning or the end of the financial year

19 Share based payments

Current status of share incentive schemes
Upon DNO obtaining control over Faroe, all employees participating in the share incentive schemes exercised their options and accepted DNO's offer and so there are no further awards outstanding under the share incentive schemes in 2019.

During the year, the Company operated three share schemes to incentivise employees: the Faroe Petroleum Co-Investment Plan ("CIP"), the Faroe Petroleum Share Incentive Plan ("SIP"); and the Faroe Petroleum Incentive Plan ("FPIP") which also incorporates the Restricted Share Plan ("RSP"), details of which are summarised below:

CIP:
Under this plan key employees can invest up to 100% of their bonus in any financial year to purchase Company shares ("Investment Shares"). Investment Shares will be matched by new shares to be issued by the Company dependent upon the Company's performance over a three-year period. The maximum match will be 1:1 but on a grossed up basis (i.e. assuming an investment was made on pre-tax basis) requiring the Company to satisfy stretching share price growth targets and be subject to a comparative total shareholder return underpin.

	2018 CIP Share Awards No	**2017 CIP Share Awards No**
Outstanding at the beginning and end of the period	5 082 341	4 713 969
Granted during the period	70 149	495 771
Lapsed during the period	-1 247 930	-127 399
Exercised during the period	-324 710	-
Forfeited during the period	-16 737	-
Outstanding at the end of the period	3 563 113	5 082 341

The estimated fair value of the share award under the CIP and the inputs used in the Monte Carlo Simulation model to calculate the fair values, are included in the table below. The CIP awards outstanding at 31 December 2018 have a weighted average remaining contractual life of 0.5 years and an exercise price of £nil.

The range of exercise prices for the CIP plan in 2018 was NOK nil (2017: NOK nil).

SIP:
Under this scheme employees commit to invest a monthly amount of up to an annual maximum of £1,500 through market purchases of the Company's shares and for every share purchased the Company will match it with two matching shares. The matching shares are released at the end of a three-year holding period.

FPIP & RSP:

Under the scheme awards will be granted in the form of whole shares as either Nil-cost options or cash equivalent phantom options. The options vest after three years, dependent upon the Company's performance over the three-year period.
In the case of a Phantom Share, the Award Holder is entitled to receive a cash payment to the extent that the Award has vested. In the case of a Nil-Cost Option, the Award Holder is entitled to exercise the Nil-Cost Option at any time during the Exercise Period to the extent that the option has vested. Options are forfeited if the employee leaves the Company before the options are exercised.

The Comany has applied the requirements of IFRS 2 'Share-based payment' and has elected to adopt the exemption to apply IFRS 2 only to awards made after 7 November 2002 and which had not vested on 1 January 2006.

The Company recognised total expenses of NOK 82.8 million (2017: NOK 20 million), all of which related to share-based payment transactions under the Current Schemes.

Date of Grant	Fair value (£)	Share price at grant (£)	Exercise price (£)	Volatility of share price	Expected life (yrs.)	Risk-free rate	Dividend yield
20/01/2015	0.20	0.69	0.00	36%	3.0	1%	0%
27/01/2016	0.19	0.49	0.00	40%	3.0	1%	0%
12/01/2017	0.53	1.00	0.00	43%	3.0	0%	0%
23/01/2017	0.56	1.06	0.00	43%	3.0	0%	0%
16/02/2017	0.54	1.10	0.00	43%	3.0	0%	0%
30/04/2018	0.69	1.33	0.00	38%	3.0	1%	0%

	2018 SIP Share Awards No	2017 SIP Share Awards No
Matching shares Outstanding at the beginning of the period	377 990	276 698
Matching shares purchased during the period	119 706	149 272
Matching shares exercised during the period	-112 368	-47 980
Outstanding at the end of the period	385 328	377 990

The estimated fair value of the share award under the SIP and the inputs used in the Black Scholes Simulation model to calculate the fair values, are included in the table below. The SIP awards outstanding at 31 December 2018 have a weighted average remaining contractual life of 1.4 years.

The range of matching share exercise prices for the SIP plan in 2018 was NOK nil (2017: NOK nil).

Date of Grant	Fair value (£)	Share price at grant (£)	Expected life (yrs.)
05/01/2015	0.60	0.60	3.00
26/01/2015	0.70	0.70	3.00
25/02/2015	0.78	0.78	3.00
27/03/2015	0.84	0.84	3.00
28/04/2015	0.86	0.86	3.00
26/05/2015	0.80	0.80	3.00
26/06/2015	0.89	0.89	3.00
05/08/2015	0.80	0.80	3.00
28/08/2015	0.73	0.73	3.00
30/09/2015	0.67	0.67	3.00
30/10/2015	0.72	0.72	3.00
30/11/2015	0.54	0.54	3.00
31/12/2015	0.54	0.54	3.00
29/01/2016	0.53	0.53	3.00
29/02/2016	0.64	0.64	3.00
31/03/2016	0.65	0.65	3.00
29/04/2016	0.79	0.79	3.00
31/05/2016	0.74	0.74	3.00
30/06/2016	0.68	0.68	3.00
29/07/2016	0.67	0.67	3.00

31/08/2016	0.66	0.66	3.00
30/09/2016	0.71	0.71	3.00
31/10/2016	0.79	0.79	3.00
30/11/2016	0.75	0.75	3.00
03/01/2017	1.05	1.05	3.00
31/01/2017	1.01	1.01	3.00
28/02/2017	1.03	1.03	3.00
31/03/2017	1.00	1.00	3.00
28/04/2017	0.94	0.94	3.00
23/05/2017	0.99	0.99	3.00
28/06/2017	0.84	0.84	3.00
31/07/2017	0.88	0.88	3.00
31/08/2017	0.86	0.86	3.00
27/09/2017	0.97	0.97	3.00
31/10/2017	1.02	1.02	3.00
30/11/2017	1.02	1.02	3.00
03/01/2018	1.02	1.02	3.00
31/01/2018	1.08	1.08	3.00
28/02/2018	1.05	1.05	3.00
29/03/2018	1.06	1.06	3.00
30/04/2018	1.33	1.33	3.00
31/05/2018	1.52	1.52	3.00
29/06/2018	1.47	1.47	3.00
31/07/2018	1.41	1.41	3.00
31/08/2018	1.50	1.50	3.00
30/09/2018	1.66	1.66	3.00
31/10/2018	1.48	1.48	3.00
30/11/2018	1.61	1.61	3.00
31/12/2018	1.47	1.47	3.00

Faroe Petroleum Investment Plan

	2018 FPIP Share Awards No	2017 FPIP Share Awards No
Outstanding at the beginning of the period	9 939 397	8 482 914
Movement in the period	-1 319 650	9 346
Granted during the period	1 987 598	3 021 020
Exercised during the period	-3 060 605	-968 071
Lapsed during the period	-80 821	-583 098
Forfeited during the period	-64 294	-22 714
Outstanding at the end of the period	7 401 625	9 939 397

The estimated fair values of FPIP awards, and the inputs used in the Monte Carlo/ Black Scholes Simulation model to calculate those fair values, are as follows:

Date of Grant	Fair value (£)	Share price at grant (£)	Exercise price (£)	Volatility of share price	Expected life (yrs.)	Risk-free rate	Dividend yield
24/07/2013	0.68	1.115	0.00	40%	5.00	1%	0%
24/07/2013	1.11	1.115	0.00	40%	5.00	1%	0%
24/07/2013	0.98	1.115	0.00	40%	5.00	1%	0%
17/06/2014	0.67	1.26	0.00	36%	5.10	1%	0%
17/06/2014	1.26	1.26	0.00	36%	5.10	1%	0%
17/06/2014	1.07	1.26	0.00	36%	5.10	1%	0%
15/06/2015	0.45	0.8175	0.00	38%	5.11	1%	0%
15/06/2015	0.82	0.8175	0.00	38%	5.11	1%	0%
15/06/2015	0.69	0.8175	0.00	38%	5.11	1%	0%
15/06/2015	0.45	0.8175	0.00	38%	3.11	1%	0%

15/06/2015	0.82	0.8175	0.00	38%	3.11	1%	0%
15/06/2015	0.82	0.8175	0.00	38%	3.11	1%	0%
15/06/2015	0.69	0.8175	0.00	38%	3.11	1%	0%
09/08/2016	0.31	0.673696	0.00	42%	5.00	0%	0%
09/08/2016	0.48	0.673696	0.00	42%	5.00	0%	0%
09/08/2016	0.99	0.673696	0.00	42%	3.00	0%	0%
09/08/2016	0.31	0.673696	0.00	42%	3.00	0%	0%
09/08/2016	0.48	0.673696	0.00	42%	3.00	0%	0%
10/04/2017	0.66	1.0225	0.00	42%	2.33	0%	0%
10/04/2017	0.81	1.0225	0.00	42%	2.33	0%	0%
28/07/2017	0.40	0.86	0.00	42%	5.00	0%	0%
28/07/2017	0.72	0.86	0.00	42%	5.00	0%	0%
28/07/2017	1.25	0.86	0.00	42%	3.00	0%	0%
28/07/2017	0.40	0.86	0.00	42%	3.00	0%	0%
28/07/2017	0.72	0.86	0.00	42%	3.00	0%	0%
24/05/2018	0.77	1.42	0.00	38%	5.00	1%	0%
24/05/2018	1.09	1.42	0.00	38%	5.00	1%	0%
24/05/2018	2.07	1.42	0.00	38%	3.00	1%	0%
24/05/2018	0.77	1.42	0.00	38%	3.00	1%	0%
24/05/2018	1.09	1.42	0.00	38%	3.01	1%	0%

20 Commitments

Pre-tax capital commitments at the end of the financial year for which no provision has been made, in relation to the Company's licences are as follows:

	2018 NOK000	2017 NOK000
Contracted	3 499 815	3 943 695

The pre-tax capital commitments stated above do not take into consideration the Equinor swap (see Director's Report for details) as this transaction did not complete until April 2019.

21 Obligations under operating leases

Commitments under non-cancellable operating leases for land and buildings are as follows:

	2018 NOK000	2017 NOK000
Future minimum lease payments under operating leases:		
Within one year	3 389	3 389
Within 2 – 5 years	8 754	12 142
	12 142	15 531

Rentals due under operating leases are charged against income on a straight-line basis over the term of the lease. In 2018 lease payments of NOK 4.4 million (2017: NOK 5.3 million) were charged against income.

22 Related party disclosures

DNO North Sea (Norge) AS has not provided any loans or guarantees to management, employees, Board members or members of the corporate assembly.

For the purpose of related party disclosure in accordance with IAS 24, only directors are considered key management personnel. For compensation of key management, personnel, note 8 contains additional information regarding remuneration of management – Managing Director.

23 Intercompany accounts and other long term liabilities

Specifications of intercompany accounts included in payables and receivables:

	2018 NOK000	2017 NOK000
Long term accounts receivable - intercompany	-	118
Long term accounts payable - intercompany	-2 314 965	-1 721 743
Assets held for sale	65 070	-
	- 2 249 263	- 1 721 625

No intercompany liabilities are lent by security. The long-term accounts receivable relates to DNO North Sea plc. Of the long-term accounts payable, NOK 1 212 million is an intercompany loan from the plc to the Company, NOK 830 million is bond financing and other intercompany payables of NOK 273 million.

Interest calculated on the intercompany loan from plc was NOK 116.6 million (2017: NOK 33.9 million) with an interest rate of LIBOR plus 3%.

24 Reserves & Resources

The Company's internal estimate of Proven and Probable ('2P') Reserves at 1 January 2019, prepared in accordance with the Petroleum Resource Management System guidelines endorsed by the Society of Petroleum Engineers, World Petroleum Congress, American Association of Petroleum Geologists and Society of Petroleum Evaluation Engineers, was 86.1 mmboe (1 January 2018, 110.2 mmboe). The 22% decrease in reserves over the year is mainly accounted for by 2018 production (3.4 mmboe) and the sale of a 17.5% interest in the Fenja field (16.4 mmboe

2P Reserves	**Gas (bcf)**	**Liquids (mmbbls)**	**Total (mmboe)**
1 January 2018	138.4	87.1	110.2
Revisions	1.8	-5.7	-5.4
Disposals	-19,4	-13.2	-16.4
Transfer from 2C	0.5	1.1	1.2
Production	-6.1	-2.4	-3.4
1 January 2019	115.2	66.9	86.1

Contingent Resources

At 1 January 2019, 2C Resources were estimated to be 144.1 mmboe (including adjusting for the sale of a 17.5% interest in the Fenja Field and the sale of a 13.3% in the Fogelberg field) representing an increase of 71% over the year (1 January 2018: 84.1 mmboe). The increase related to discoveries is attributable to the Iris / Hades discovery (38.1 mmboe).

2C Contingent Resources	Gas (bcf)	Liquids (mmbbls)	Total (mmboe)
1 January 2018	173.0	55.3	84.1
Revisions	89.1	22.8	37.7
Disposals	-36.6	-8.4	-14.5
Discoveries	173.7	9.1	38.1
Transfer to 2P	-0.5	-1.2	-1.3
1 January 2019	398.7	77.6	144.1

Licences held in Norway

See note 29 for list of licences held in Norway.

25 Held for sale assets

On 5 December 2018, the Company publicly announced the Equinor swap transaction to swap its interests in the Njord, Hyme redevelopment and Bauge development assets (the "Divested assets"), in return for interests in four production assets on the Norwegian Continental Shelf: Alve, Marulk, Ringhorne East and Vilje on a cashless basis. The transaction has an effective date of 1 January 2019 and is subject only to consent from the Norwegian authorities. The transaction is completed in April 2019, within one year of the reporting date.

The major classes of assets and liabilities for the Divested assets classified as held for sale as at 31 December 2018 are as follows:

	2018
	NOK000
Assets	
Property, plant and equipment: development	712 857
Property, plant and equipment: exploration	28 750
Current Assets	41 233
Assets held for sale	782 840
Liabilities	
Current liabilities	-20 451
Deferred tax liabilities	-254 516
Decommissioning provision	-65 702
Liabilities directly associated with assets held for sale	-340 670
Net assets directly associated with assets held for sale	**442 170**

On 12 February 2018, the Company publicly announced the farm down of the Fenja development asset from a working interest of 25% to 7.5% to Suncor Energy Norge AS for a cash consideration of USD 54.5 million due upon completion. The transaction completed on 17 May 2018.

The major classes of assets and liabilities for the 17.5% interest in Fenja classified as held for sale as at 31 December 2017 are as follows:

	2017
	NOK000
Assets	
Property, plant and equipment: development	481 702
Current Assets	33 418
Assets held for sale	515 120
Liabilities	
Current liabilities	-22 818
Deferred tax liabilities	-327 185
Liabilities directly associated with assets held for sale	-350 003
Net assets directly associated with assets held for sale	**165 117**

26 Shareholders and number of shares

The share capital in DNO North Sea (Norge) AS is NOK 10.0 million. Of these NOK 5.0 million is fully paid and distributed as 5 shares and NOK 5.0 million was, in December 2010, converted from intercompany loan to equity and is distributed as 5 shares. Value per share is NOK 1.0 million. DNO North Sea plc holds all 10 shares.

At 31 December 2018 the chairman of the Board was Graham Stewart, and the other Board members were Jonathan Cooper and Helge Hammer. On 11 January 2019, DNO ASA obtained control of Faroe and subsequently de-listed Faroe Petroleum plc from AIM on 14 February 2019 and renamed it to DNO North Sea plc.

Following the change of control of the plc, new Board members were appointed to DNO NSN on the 28 January 2019. The new Board members appointed are Bjørn Kenneth Dale (Chairman of the Board) and Nicholas John Paul Whiteley and Christopher Thomas Hyde Spencer (Board members).

Two Board members are jointly empowered to sign for the Company. The Board can authorise the general manger to have sole authority to sign on behalf of the Company.

27 Subsequent events

DNO acquisition
DNO ASA obtained control of Faroe Petroleum plc on 11 January 2019 and subsequently de-listed the Faroe Petroleum plc from AIM on 14 February 2019.

Results of Brasse East exploration well and Brasse appraisal side track
The Brasse East exploration well (31/7-3 S) was drilled to a total depth of 2,247 metres below sea level. The well targeted a separate structure located to the east of the Brasse field. The well encountered 48 metres of gross Jurassic reservoir, but was found to be water wet. Data acquisition was undertaken including coring and logging.

The Brasse appraisal well 31/7-3 A sidetrack, planned as a further appraisal of the northern part of the Brasse field, was drilled to a total depth of 2,254 metres below sea level. Preliminary analysis of the log data acquired whilst drilling, indicated the well encountered approximately 40 metres of gross hydrocarbon-bearing Jurassic reservoir. The sidetrack well encountered a lower than expected net to gross ratio and a significantly deeper oil water contact. These new data points will now be incorporated in the Brasse geological models and an updated reserves range will be reported in due course.

Eight exploration licences awarded in Norway in 2019 under 2018 Norwegian APA:

Licence PL 969, Edinburgh – Blocks 1/6 and 1/8: DNO NSN (45% and operator), Shell (40%) and Spirit (15%): The Edinburgh structure is a cross-border (Norway-UK) prospect located in the Central North Sea with reservoirs in Jurassic and Triassic sandstones. The work programme involves geological and geophysical studies before a drill or drop decision by February 2021.

Licence PL 1007, Elysium – Blocks 6506/7, 6506/8 and 6506/10: DNO NSN (40% and operator), OMV (20%), Equinor (20%) and Spirit (20%): The Elysium Prospect is a four-way closure located on the highest part of the Sklinna Ridge in the Norwegian Sea and just to the south of the recent PL 644 Iris / Hades discovery. The work programme involves reprocessing of 3D data and a drill or drop decision by February 2021.

Licence PL 968, Portishead – Blocks 2/2, 2/5, 2/6 and 2/8: DNO NSN(40% and operator), AkerBP (20%), MOL (20%) and Petoro (20%): The Portishead prospect is defined as a stratigraphic trap in the Ty/Heimdal and Borr sandstones, similar to those encountered in the DNO NSN operated south east Tor ('SE Tor') licence. The work program involves reprocessing of 3D data with a drill or drop decision in 2021.

Licence PL 1006, Griffon Vulture – Blocks 6405/3, 6406/1, 6505/12 and 6506/10: DNO NSN (30%) and Equinor (70% and operator): The licence contains the Griffon Vulture Prospect in similar Cretaceous sandstones as the recent Iris / Hades discovery to the north. The work programme involves reprocessing of 3D data and a drill or drop decision by February 2021.

Licence PL 983 Såta – Blocks 16/3, 17/1, 17/2, 25/12, 26/8, 26/10 and 26/11: DNO NSN (20%), Equinor (40% and operator), Petoro (20%) and Total (20%): The licence is located in the Åsta Graben, 50 km east of the Utsira High. Several prospects have been identified, with the main prospect being Såta that is a four-way closure with reservoirs in the Sandnes and Statfjord formations. The work programme involves acquiring seismic broadband 3D data before a drill or drop decision by February 2021.

Licence PL 644 C Iris/Hades Extension – Block 6506/10: DNO NSN (20%), OMV (30% and operator), Equinor (40%) and Spirit (10%): This licence contains a potential southward extension of the Iris / Hades Discovery. The work programme is the same as the existing PL 644 licence.

Licence PL 019 H Ula Extension – Block 7/12: DNO NSN (20%), AkerBP (80% and operator): The licence contains a potential northward extension of the Ula North Discovery. The work programme is geological and geophysical studies before a drill or drop decision in February 2020.

Licence PL 006 F SE Tor extension – Block 2/5: DNO NSN (85% and operator), AkerBP (15%): This licence contains a portion of the Paleocene Gomez exploration target which extends outside the existing DNO NSN operated SE Tor Licence. The work programme is the same as the existing PL006 C SE Tor licence.

28 Corporation

At 31 December 2018 DNO North Sea plc owned 100% of the shares in DNO NSN.

Since 11 January 2019, the immediate and ultimate holding company of DNO North Sea plc is DNO ASA, which is incorporated in Norway.

Registered Office:
DNO Norge ASA
Aker Brygge
Oslo

Group Head office:

DNO North Sea plc
24 Carden Place
Aberdeen AB10 1UQ
United Kingdom

Tlf: +44 1224 650 920
Fax: +44 1224 650 921

The consolidated annual accounts can be provided by contacting DNO North Sea plc. The final consolidated annual accounts will be published on the Internet page www.dno.no.

29 Jointly controlled assets

Fields in production or under development as at 31 December 2018:

Country	Licence	Block	Field Name	Field Operator	Field % Interest
Norway	PL019	7/12	Ula	Aker BP ASA	20.00
Norway	PL019 E	7/12	Ula Extension	Aker BP ASA	20.00
Norway	PL048 D	15/5	Enoch	Equinor Energy AS	9.30
Norway	PL053 B	30/6	Brage	Wintershall Norge AS	14.2567
Norway	PL055	31/4	Brage	Wintershall Norge AS	14.2567
Norway	PL055 B	31/4	Brage	Wintershall Norge AS	14.2567
Norway	PL055 D	31/4	Brage	Wintershall Norge AS	14.2567
Norway	PL065	1/3	Tambar	Aker BP ASA	45.00
Norway	PL065 B	1/3	Tambar Extension	Aker BP ASA	45.00
Norway	PL107	6407/7	Njord	Equinor Energy AS	7.50
Norway	PL107 C	6407/7	Njord	Equinor Energy AS	7.50
Norway	PL132	6407/10	Njord	Equinor Energy AS	7.50
Norway	PL147	3/7	Trym	DNO North Sea (Norge) AS	50.00
Norway	PL169 E	25/8	Ringhorne Øst	Equinor Energy AS	30.00
Norway	PL185	31/7	Brage	Wintershall Norge AS	14.2567
Norway	PL274	1/3	Oselvar	DNO North Sea (Norge) AS	55.00
Norway	PL274 CS	1/2	Oselvar	DNO North Sea (Norge) AS	55.00
Norway	PL300	2/1	Tambar Øst	Aker BP ASA	45.00
Norway	PL348	6407/8	Hyme	Equinor Energy AS	7.50
Norway	PL348 B	6407/8	Hyme/Bauge	Equinor Energy AS	7.50
Norway	PL405	8/10	Oda	Spirit Energy Norway AS	15.00
Norway	PL433	6506/9, 12	Fogelberg	Spirit Energy Norway AS	15.00
Norway	PL586	6406/11, 12	Fenja	Spirit Energy Norway AS	7.50

Exploration acreage and discoveries as at 31 December 2018:

Country	Licence	Block	Field Name	Field Operator	Field % Interest
Norway	PL006 C	2/5	Tor Extension	DNO North Sea (Norge) AS	85.00
Norway	PL006 E	2/5	Tor Extension	DNO North Sea (Norge) AS	85.00
Norway	PL644	6506/8, 10, 11	Aerosmith	OMV (Norge) AS	20.00
Norway	PL644 B	6506/11	Aerosmith Extension	OMV (Norge) AS	20.00
Norway	PL 740	31/7, 30/9	Brasse	DNO North Sea (Norge) AS	50.00
Norway	PL740 B	31/4, 7	Brasse Extension	DNO North Sea (Norge) AS	50.00
Norway	PL740 C	31/4	Brasse Extension	DNO North Sea (Norge) AS	50.00
Norway	PL749	6306/4, 5	Seychelles	Spirit Energy Norway AS	20.00

Norway	PL793	6407/7, 8, 10, 11	Portrush	Equinor Energy AS	20.00
Norway	PL810	2/1, 7/12, 8/10	Katie	DNO North Sea (Norge) AS	40.00
Norway	PL810 B	2/1, 8/10	Katie Extension	DNO North Sea (Norge) AS	40.00
Norway	PL811	7/9, 7/12, 8/7	Gullaxy	Spirit Energy Norway AS	20.00
Norway	PL825	30/3, 6	Rungne	DNO North Sea (Norge) AS	40.00
Norway	PL836 S	6406/2, 3	Bergknapp (Yoshi)	Wintershall Norge AS	30.00
Norway	PL845	6609/6 6610/4, 5, 6	Grønøy	ConocoPhillips Skandinavia AS	20.00
Norway	PL870	25/6 25/9 26/7	Pabow	Equinor Energy AS	20.00
Norway	PL881	33/9	Goanna	Wellesley Petroleum AS	30.00
Norway	PL888	6507/7	Canela	DNO North Sea (Norge) AS	40.00
Norway	PL906	7/11, 12	Skræmetindan	Aker BP ASA	20.00
Norway	PL908	9/11, 12 10/10, 11	Aarhus	Equinor Energy AS	30.00
Norway	PL926	33/9, 12 34/10	Blue Libelle	DNO North Sea (Norge) AS	40.00

Fields in production or under development as at 31 December 2017:

Country	Licence	Block	Field Name	Field Operator	Field % Interest
Norway	PL107	6407/7	Njord	Equinor Energy AS	7.50
Norway	PL107C	6407/7	Njord	Equinor Energy AS	7.50
Norway	PL132	6407/10	Njord	Equinor Energy AS	7.50
Norway	PL348	6407/8,9	Hyme	Equinor Energy AS	7.50
Norway	PL348b	6407/8	Hyme	Equinor Energy AS	7.50
Norway	PL048D	15/5	Enoch	Repsol Sinopec Resources UK Limited	1.86
Norway	PL053B	30/6	Brage	Equinor Energy AS	14.26
Norway	PL055	31/4	Brage	Equinor Energy AS	14.26
Norway	PL055B	31/4	Brage	Equinor Energy AS	14.26
Norway	PL055D	31/4	Brage Extension	Equinor Energy AS	14.26
Norway	PL185	31/7	Brage	Equinor Energy AS	14.26
Norway	PL169E	25/8	Ringhorne East	Exxon Expl & Prod Norway AS	7.80
Norway	PL147	3/7	Trym	DNO North Sea (Norge) AS	50.0
Norway	PL274	1/3	Oselvar	DNO North Sea (Norge) AS	55.0
Norway	PL274 CS	1/2	Oselvar	DNO North Sea (Norge) AS	55.0
Norway	PL300	2/1,	Tambar	Aker BP ASA	45.0
Norway	PL065	1/3	Tambar	Aker BP ASA	45.0
Norway	PL019	7/12	Ula	Aker BP ASA	20.0

Exploration acreage and discoveries as at 31 December 2017:

Country	Licence	Block	Field Name	Field Operator	Licence Interest %
Norway	PL433	6506/9 part, 12 part	Fogelberg	Spirit Energy Norge AS	28.30
Norway	PL644	6506/8,10,11	Iris/Hades	OMV (Norge) AS	20.00
Norway	PL644B	6506/,11	Iris/Hades extension	OMV (Norge) AS	20.00
Norway	PL586	6406/11,12	Fenja	VNG Norge AS	25.00
Norway	PL749	6306/4	Seychelles	Spirit Energy Norge AS	20.00

Norway	PL006C	2/5 part	SE Tor	DNO North Sea (Norge) AS	85.00
Norway	PL405	8/10	Oda	Spirit Energy Norge AS	15.00
Norway	PL627 / 627B	25/5,6,8,9	Shango	Total E&P Norge AS	20.00
Norway	PL740	30/9, 31/7	Brasse	DNO North Sea (Norge) AS	50.00
Norway	PL740B	31/4.7	Brasse extension	DNO North Sea (Norge) AS	50.00
Norway	PL793	6407/7.8.10 & 11	Portrush	A/S Norske Shell	20.00
Norway	PL836S	6406/2, 3	Yoshi	Wintershall Norge AS	30.00
Norway	PL810	2/1,7/12,8/10	Katie	DNO North Sea (Norge) AS	40.00
Norway	PL870	25/6,9,26/7	Pabow	Equinor Energy AS	20.00
Norway	PL881	33/9	Goanna	Wellesley Petroleum AS	30.00
Norway	PL888	6507/7	Canela	DNO North Sea (Norge) AS	40.00
Norway	PL811	7/9, 12, 8/7, 10	Gullaxy	Centrica Resources Norge AS	20.00
Norway	PL825	30/3, 6	Rungne	DNO North Sea (Norge) AS	40.00
Norway	PL845	6609/6, 6610/4,5,6	Grønøy	ConocoPhillips Skandinavia AS	20.00

Oslo, date: 27 June 2019

Name: Bjørn Kenneth Dale
Chairman of the Board

Name: Christopher Thomas Hyde Spencer
Board member

Name: Nicolas John Paul Whiteley
Board member

Skattedirektoratet

Saksbehandler
Torstein Kinden Helleland

Deres dato
13.10.2009

Vår dato
22.10.2009

Telefon
22078139

Deres referanse
Nina Irene Henriksen

Vår referanse
2009/806899

FAROE PETROLEUM NORGE AS
Postboks 309
4002 STAVANGER

Søknad om tillatelse til å utarbeide årsregnskap og årsberetning på engelsk språk for Faroe Petroleum Norge AS, org. nr. 989 399 071

Det vises til Deres brev av 13. oktober 2008. De søker på vegne av Faroe Petroleum Norge AS om dispensasjon fra kravet til å utarbeide årsregnskap og årsberetning på norsk språk.

I søknaden er det opplyst at selskapet er Faroe Petroleum Norge AS er heleid av morselskapet Faroe Petroleum PLC, som er et britisk selskap registrert på AIM på London børsen. Morselskapet er lokalisert i Aberdeen i Skottland. Selskapet er finansiert av morselskapet samt gjennom en lånefasilitet med Bank of Scotland og syndikat banken Barclays Bank. Bank of Scotland og Barclay Bank krever i låneavtalen at selskapet årlig skal sende de årsberetning og årsregnskap oversatt til engelsk. Styresammensetningen i selskapet er også internasjonal. Selskapet søker på denne bakgrunn om dispensasjon fra Regnskapsloven § 3-4 tredje ledd om at årsregnskap og årsberetning skal være på norsk.

Etter regnskapsloven § 3-4 tredje ledd skal *"årsregnskapet og årsberetningen ... være på norsk. Departementet kan ved ... enkeltvedtak bestemme at årsregnskapet og/eller årsberetningen kan være på et annet språk."*

I Ot. prp. nr. 42 (1997-1998) Om lov om årsregnskap m.v., er det uttalt følgende om regnskapslovens formål, jf. pkt. 1.1:
"Regjeringen har som siktemål at regnskapsloven skal bidra til informative regnskaper for ulike grupper av regnskapsbrukere. Regnskapsbrukerne er dels investorer og kreditorer som tilfører kapital til foretakene, og dels andre grupper som har interesse av å vite hvordan foretaket drives, f.eks. de ansatte og lokalsamfunnet. Informasjonen til kapitalmarkedet skal gi grunnlag for riktig prising av finansielle objekter. Riktig prisdannelse på aksjer er en forutsetning for at ressursbruken i samfunnsøkonomien skal bli best mulig. Goderegnskaper vil også gjøre det vanskeligere for markedsdeltakere å ta ut spekulasjonsgevinster med basis i skjevt fordelt informasjon."

Det fremgår således at et av hovedformålene med regnskapsloven er å bidra til *"informative regnskaper for ulike grupper av regnskapsbrukere"*. Regnskapsbrukere vil omfatte, jf. uttalelsen i proposisjonen, blant andre investorer, kreditorer, ansatte og lokalsamfunnet. Offentlige myndigheter må også anses som en sentral regnskapsbruker, idet ulike myndigheter, som lignings- og tilsynsmyndigheter, benytter regnskapene som sentrale verktøy i sin kontrollvirksomhet.

Det er etter Skattedirektoratets vurdering derfor avgjørende at spørsmål om dispensasjon fra kravet til å utarbeide årsregnskap og/eller årsberetning på norsk, ikke på vesentlige områder fraviker fra hensynet til brukere av regnskapsinformasjon. Søkeren må dessuten som et utgangspunkt for vurderingen ha en særlig interesse for kun å utarbeide årsregnskap og/eller årsberetning på et annet språk enn norsk.

Postadresse
Postboks 9200 Grønland
0134 Oslo
skattedirektoratet@skatteetaten.no

Besøksadresse
Fredrik Selmers vei 4
Org. nr: 974761076

Sentralbord
800 80 000
Telefaks
22 17 08 60

2009/806899 Side 2 av 2

Som nevnt ovenfor er det særlig hensynet til brukerne av regnskapsinformasjon som skal vurderes ved en dispensasjonssøknad. Selskapet er 100 % eid av Faroe Petroleum PLC, som er et britisk selskap registrert på AIM på London børsen. Selskapet er finansiert av morselskapet samt gjennom britiske banker. Selskapet må i dag på grunnlag av britiske eierinteresser, styrets sammensetning og lånefasiliteter med britiske banker oversette årsberetning og årsregnskap i sin helhet fra norsk til engelsk.

Skattedirektoratet gir på bakgrunn av en helhetsvurdering Faroe Petroleum Norge AS dispensasjon fra kravet til å utarbeide årsregnskap og årsberetning på norsk språk, jf. regnskapsloven § 3-4 tredje ledd.

Dispensasjonen er gitt under den forutsetning at de ovennevnte opplysninger som vedtaket baserer seg på ikke endres vesentlig.

Med hilsen

Jan Hoelstad
seniorrådgiver
Rettsavdelingen, foretaksskatt
Skattedirektoratet

Torstein Kinden Helleland

Building a better working world

Statsautoriserte revisorer
Ernst & Young AS

Vassbotnen 11a Forus, NO-4313 Sandnes
Postboks 8015, NO-4068 Stavanger

Foretaksregisteret: NO 976 389 387 MVA
Tlf: +47 24 00 24 00

www.ey.no
Medlemmer av Den norske revisorforening

INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of DNO North Sea (Norge) AS

Report on the audit of the financial statements

Opinion

We have audited the financial statements of DNO North Sea (Norge) AS, which comprise the balance sheet as at 31 December 2018, the income statement, statement of comprehensive income, statements of cash flows and changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company as at 31 December 2018 and its financial performance and cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

Basis for opinion

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

Other information

Other information consists of the information included in the Company's annual report other than the financial statements and our auditor's report thereon. The Board of Directors and Chief Executive Officer (management) are responsible for the other information. Our opinion on the audit of the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

EY
Building a better working world

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report

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

Opinion on registration and documentation

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

Building a better
working world

3

Stavanger, 28 June 2019
ERNST & YOUNG AS

The auditor's report is signed electronically

Erik Søreng
State Authorised Public Accountant (Norway)

PENNEO

Signaturene i dette dokumentet er juridisk bindende. Dokument signert med "Penneo™ - sikker digital signatur". De signerende parter sin identitet er registrert, og er listet nedenfor.

"Med min signatur bekrefter jeg alle datoer og innholdet i dette dokument."

Erik Søreng
Statsautorisert revisor
På vegne av: EY
Serienummer: 9578-5999-4-1529830
IP: 77.18.xxx.xxx
2019-06-28 15:25:04Z

bank ID

Faroe Petroleum Norge AS

DNO

11 April 2019

Ernst & Young AS
P.O.Box 8015
4068 Stavanger

Attention: Erik Søreng

Management Representation Letter

This letter of representations is provided in connection with your audit of the group reporting package of Faroe Petroleum Norge AS ("the Company") for the year ended 31 December 2018 for the purpose of expressing an interoffice conclusions to the auditors of Faroe Petroleum PLC. The group reporting package does not purport to be financial statements and is prepared in accordance with International Financial Reporting Standards as adopted by the European Union for the sole purpose of consolidation into the Faroe Petroleum PLC consolidated financial statements which are prepared in accordance with International Financial Reporting Standards as adopted by the European Union. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the group reporting package has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union for the sole purpose of consolidation into the Faroe Petroleum PLC consolidated financial statements which are prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

We understand that the purpose of your audit of our group reporting package is to express an interoffice conclusion to the auditors of Faroe Petroleum PLC thereon and that your audit was conducted in accordance with International Standards on Auditing, which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Group Reporting Package and Financial Records

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated *3 July 2017*, for the preparation of the group reporting package in

1

accordance with International Financial Reporting Standards as adopted by the European Union.

2. As members of management of the Company, we believe that the Company has a system of internal controls adequate to enable the preparation of an accurate group reporting package in accordance with International Financial Reporting Standards as adopted by the European Union that are free from material misstatement, whether due to fraud or error.

3. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the group reporting package taken as a whole.

B. Non-compliance with laws and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Company's business activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws or regulations, including fraud.

2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

3. We have disclosed to you the results of our assessment of the risk that the group reporting package may be materially misstated as a result of fraud.

   We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud, that may have affected the Company (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:

   - Involving financial improprieties
   - Related to laws or regulations that have a direct effect on the determination of material amounts and disclosures in the Company's group reporting package
   - Related to laws or regulations that have an indirect effect on amounts and disclosures in the group reporting package, but compliance with which may be fundamental to the operations of the Company's business, its ability to continue in business, or to avoid material penalties
   - Involving management, or employees who have significant roles in internal control, or others
   - In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the group reporting package such as records, documentation and other matters;
- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. All material transactions have been recorded in the accounting records and are reflected in the group reporting package.
3. We have made available to you all minutes of the meetings of shareholders, directors and committees of directors (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the most recent meeting on the following date.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Company's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the [period] end. These transactions have been appropriately accounted for and disclosed in the group reporting package.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Company has complied with, all aspects of contractual agreements that could have a material effect on the group reporting package in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the group reporting package.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have included in the group reporting package all guarantees that we have given to third parties.

E. Subsequent Events

1. There have been no events subsequent to period end which require adjustment of or disclosure in the group reporting package.

F. Other information

1. We acknowledge our responsibility for the preparation of the other information.

2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Environmental liabilities

1. We have disclosed to you all liabilities or contingencies arising from environmental matters including Asset Retirement Obligations. These liabilities or contingencies have been recognised, measured and disclosed, as appropriate, in the financial statements. The environmental liabilities included in the balance sheet represent our best estimate of the potential liability using assumptions that we believe represent the expected outcomes of the uncertainties. With respect to the valuation of related assets, we have considered the effect of environmental matters, and the carrying value of the relevant assets is recognised, measured and disclosed, as appropriate, in the financial statements. Any commitments related to environmental matters have been measured and disclosed, as appropriate, in the financial statements.

H. Use of the Work of a Specialist

1. The Group undertakes its own internal evaluation of its oil and gas reserves, using its own technical experts. The Group's internal review of oil and gas reserves is broadly in line with the findings of the independent experts engaged to evaluate the oil and gas reserves. Where there are differences between the Group's internal view on oil and gas reserves and those of the independent expert, these have been explained to you by the Group's technical expert. The Group has adequately considered the qualifications of the independent expert and its own technical expert. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

I. Reserves, Impairment, Decommissioning and Derivatives Estimates

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of International Financial Reporting Standards as adopted by the European Union.

2. We confirm that the significant assumptions used in making the reserves, impairment, decommissioning and derivatives estimates appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity. Note that cost estimates and the contracting market van be very volatile and that for many of the estimates we rely on the operators reasonable assumptions.

3. We confirm that the disclosures made in the consolidated and parent company financial statements with respect to the accounting estimates are complete and made in accordance with of International Financial Reporting Standards as adopted by the European Union.

4. We confirm that no adjustments are required to the accounting estimates and disclosures in the consolidated and parent company financial statements due to subsequent events.

J. Capitalisation of exploration and evaluation assets

1. All assets in the exploration and evaluation phase are being actively worked on and commercially progressed by the Group.

K. Income and Indirect Taxes

1. We acknowledge our responsibility for the tax accounting methods adopted by the Company, which have been consistently applied in the current period, and for the current year income tax provision calculation.

2. We also acknowledge our responsibility for the plans with respect to future taxable income, which represent our estimates as to the outcome of those plans, based on available evidence, and for the significant assumptions used in our analysis. We would implement such strategies as necessary to prevent a tax operating loss or credit carry forward from expiring.

3. We have disclosed to you all tax opinions, correspondence with tax authorities, or other appropriate information that served as support for the accounting for potentially material matters.

Yours Faithfully,

Nina Irene Henriksen, Financial Controller Norway

Ludvig Høvring, Finance Manager Norway

5