Brønnøysundregistrene

ÅRSREGNSKAPET FOR REGNSKAPSÅRET 2019 - GENERELL INFORMASJON

Enheten

Organisasjonsnummer:	946 680 591
Organisasjonsform:	Aksjeselskap
Foretaksnavn:	KUFPEC NORWAY AS
Forretningsadresse:	Kongsgårdbakken 1 4005 STAVANGER

Regnskapsår

Årsregnskapets periode:	01.01.2019 - 31.12.2019

Konsern

Morselskap i konsern:	Nei

Regnskapsregler

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

Årsregnskapet fastsatt av kompetent organ

Bekreftet av representant for selskapet:	Henrik Mollerin
Dato for fastsettelse av årsregnskapet:	13.05.2020

Grunnlag for avgivelse

År 2019: Årsregnskapet er elektronisk innlevert

År 2018: Tall er hentet fra elektronisk innlevert årsregnskap fra 2019

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, 03.06.2021

Resultatregnskap

Beløp i: USD	Note	2019	2018
RESULTATREGNSKAP			
Inntekter			
Sales income	3	399 055 000	480 482 000
Sum inntekter		**399 055 000**	**480 482 000**
Kostnader			
Wages and salaries	5,6,7,9	10 465 000	8 105 000
Depreciations	4,9	525 000	128 000
Nedskrivning av varige driftsmidler og immaterielle eiendeler	4,9	-7 663 000	-3 160 000
Cost of operations	4,9	231 784 000	224 024 000
Exploration/New Venture expenditure written off	8	1 245 000	2 264 000
Other general and administrative expenses	5,6,7,9	2 875 000	2 034 000
Sum kostnader		**239 231 000**	**233 395 000**
Driftsresultat		**159 824 000**	**247 087 000**
Finansinntekter og finanskostnader			
Interest income		147 000	258 000
Foreign exchange gain		1 997 000	0
Sum finansinntekter		**2 144 000**	**258 000**
Foreign exchange loss			3 380 000
Interest expense	15,22	31 318 000	37 530 000
Unwinding of discount on decommissioning provision	16	8 184 000	8 064 000
Sum finanskostnader		**39 502 000**	**48 974 000**
Netto finans		**-37 358 000**	**-48 716 000**
Ordinært resultat før skattekostnad		**122 466 000**	**198 371 000**
Income tax expense	10	93 063 000	152 584 000
Ordinært resultat etter skattekostnad		**29 403 000**	**45 787 000**
Directors' fees	6	-14 000	-21 000
Årsresultat		**29 389 000**	**45 766 000**

Overføringer og disponeringer

Resultatregnskap

Beløp i: USD	Note	2019	2018
Transferred to other equity		29 389 000	45 766 000
Sum overføringer og disponeringer		**29 389 000**	**45 766 000**

Balanse

Beløp i: USD	Note	2019	2018
BALANSE - EIENDELER			
Anleggsmidler			
Immaterielle eiendeler			
Utsatt skattefordel	10	146 538 000	239 601 000
Sum immaterielle eiendeler		**146 538 000**	**239 601 000**
Varige driftsmidler			
Property, plant and equipment	9	903 796 000	900 736 000
Sum varige driftsmidler		**903 796 000**	**900 736 000**
Sum anleggsmidler		**1 050 334 000**	**1 140 337 000**
Omløpsmidler			
Varer			
Inventories	13	10 241 000	42 458 000
Sum varer		**10 241 000**	**42 458 000**
Fordringer			
Trade and other receivables	12	103 491 000	81 075 000
Sum fordringer		**103 491 000**	**81 075 000**
Bankinnskudd, kontanter og lignende			
Cash and cash equivalents	11	4 617 000	21 672 000
Sum bankinnskudd, kontanter og lignende		**4 617 000**	**21 672 000**
Sum omløpsmidler		**118 349 000**	**145 205 000**
SUM EIENDELER		**1 168 683 000**	**1 285 542 000**
BALANSE - EGENKAPITAL OG GJELD			
Egenkapital			
Innskutt egenkapital			
Share capital	21	10 695 000	10 695 000
Overkurs		280 903 000	280 903 000

Balanse

Beløp i: USD	Note	2019	2018
Sum innskutt egenkapital		**291 598 000**	**291 598 000**
Opptjent egenkapital			
Other equity		75 157 000	45 766 000
Sum opptjent egenkapital		**75 157 000**	**45 766 000**
Sum egenkapital		**366 755 000**	**337 364 000**
Gjeld			
Langsiktig gjeld			
Pensjonsforpliktelser		600 000	133 000
Decommissioning provision, long term	16	237 620 000	233 836 000
Lease Liability - ROUA	22	3 427 000	
Sum avsetninger for forpliktelser		**241 647 000**	**233 969 000**
Annen langsiktig gjeld			
Long-term borrowing	15	492 633 000	661 191 000
Sum annen langsiktig gjeld		**492 633 000**	**661 191 000**
Sum langsiktig gjeld		**734 280 000**	**895 160 000**
Kortsiktig gjeld			
Leverandørgjeld	14	52 773 000	47 835 000
Kortsiktig konserngjeld	15	7 772 000	5 183 000
Decommissioning provision, short term	16	7 103 000	0
Sum kortsiktig gjeld		**67 648 000**	**53 018 000**
Sum gjeld		**801 928 000**	**948 178 000**
SUM EGENKAPITAL OG GJELD		**1 168 683 000**	**1 285 542 000**

KUFPEC NORWAY AS
A Subsidiary of Kuwait Foreign Petroleum Exploration Co. K.S.C.

KUFPEC NORWAY AS

(Org. no.: 946 680 591)

Directors' Report & Financial Statements with Notes

31st December 2019

Content:

DIRECTORS' REPORT 2019
KUFPEC Norway AS

Established by its parent company KPC, KUFPEC is an international oil company, engaged in exploration, development and production of crude oil and natural gas outside Kuwait, with activities in Africa, Middle East, Asia, UK, Norway, Canada and Australia. KUFPEC has been present in Norway through its subsidiary KUFPEC Norway AS ("the Company") since 2013.

1. Producing Assets

Gina Krog

The Company holds a 30% working interest in Gina Krog. Gina Krog is an oil and gas field which came on stream in June 2017. Oil is exported through a Floating Storage and Offloading vessel. Rich gas is transported to the Sleipner Hub for further processing and export through the Norwegian Gas Transportation Network (Gassled). Initial pressure at Gina Krog is maintained by gas re-injection. The Gina Krog platform has been designed to accommodate potential tie-ins. In 2019, Gina Krog has sold 11.7 mln bbls of oil/condensate, 2.3 mln bbls of NGL and 29.5 BCF of gas products (all figures are gross).

Sleipner East and West

The Company holds a 10% working interest in the Sleipner East field and a 9.4112% working interest in the Sleipner West field.

Sleipner East is a large gas/condensate field located in the central North Sea. The Gungne satellite field, part of the same Production License, is tied back to Sleipner East through a subsea connection. Condensate from Sleipner is sent to the Kårstø onshore processing terminal for further processing. Processed gas is exported to Zeebrugge in Belgium through Gassled.

Sleipner West is a large gas/condensate field in the central North Sea. Processed gas from Sleipner West is routed to Sleipner East for export. Unstable condensate from Sleipner West is mixed at Sleipner East and sent to Kårstø for final processing.

In 2019, Sleipner East and West has sold 3.8 mln bbls of oil/condensate, 2.9 mln bbls of NGL and 114.5 BCF of gas products (all figures are gross).

Utgard

The Company holds a 6.2% working interest in the Utgard field. Utgard is a gas/condensate field. The Plan for Development and Operation (PDO) was approved in January 2017 and production started in September 2019. Utgard is developed as a subsea tie-back to Sleipner, and the produced gas is exported through Gassled. Condensate is piped to the Kårstø onshore processing terminal for processing and export.

In 2019, Utgard has sold 2.0 mln bbls of oil/condensate, 0.7 mln bbls of NGL and 9.7 BCF of gas products (all figures are gross).

Gyda Field

The Company holds a 5% working interest in the Gyda field (PL 019B). Gyda production rate was low with an average gross daily production of 880 boepd in 2019. The permanent cessation of production took place at the end of February 2020. The key focus on Gyda in 2019 has been safe and efficient late-life operations and planning for an effective decommissioning. The cessation plan for Gyda has been approved by the Norwegian Authorities. According to this plan, disposal of facilities shall be completed in 2023. Execution of well plug and abandonment started in January 2019.

Tambar East Field

The Company holds a 0.8% working interest in the small Tambar East field. The unitized field extends into license PL019B. Tambar East is a single well at the unmanned Tambar platform which is tied back to the AkerBP operated Ula platform. The well has been closed in 2018. The license has decided to stop production until 2024 whilst studying potential future use of the well.

2. Development Projects

Yme

The Company holds a 10% working interest in the Yme field. A revised PDO was approved by the Norwegian Authorities in March 2018. The PDO includes a leased jack-up rig equipped with drilling and production facilities and re-use of existing facilities on the field. A total of nine wells will be re-used and six new wells are planned. A new subsea template is planned to be installed nearby the existing template on the Beta structure. Modification and construction work on the production facility is ongoing in Egersund with first oil scheduled for 4Q 2020.

3. Exploration

PL048E

PL048E contains the Eirin discovery (1978), situated approximately 9 km from Gina Krog.

The project is currently suspended with due to lack of pipeline capacity and uncertain commerciality. The 2020 budget includes funds related to alternative development studies. No activity is expected until 2021 and the current picture indicates no pipeline capacity until 2024/25.

PL813

In late 2018, the joint venture unanimous voted to drop the drilling of a well and relinquish the acreage. The acreage was formally relinquished on 05.02.2019.

PL850

The PL850 exploration license was awarded in APA2015 licensing round and is operated by Edison Norge. The license had a three-year initial work program with a firm 3D seismic program. The drill-or-drop deadline was postponed first by 9 months and later by additional 6 months. The first extension was related to additional technical work required to de-risk the project, while the latter extension was related to a potential sale of the operating company, which complicated the operator's internal decision process. The current drill-or-drop deadline is 05.05.2020 and it is assumed that a "drop" recommendation will come from the operator soon.

Other Exploration Activities

KNAS completed a basin screening study around the Greater Sleipner Area in 2019, and a few potential areas were identified and brought forward for further assessment and potentially APA2020 application as new exploration acreage.

4. Business Development

KUFPEC Norway AS has not made any acquisitions on the Norwegian Continental Shelf in 2019.

KUFPEC continues to execute its strategy to grow through profitable projects in Norway, and the Company is committed as part of the corporate strategy to continuously investigate possible acquisition opportunities including producing assets, developments and exploration.

5. Health, Safety, Security and Environment

KUFPEC Norway AS' office, from where all the Company's Norwegian activities are managed, is located in central Stavanger. The Company had 22 local employees at the end of 2019, of which 6 were females. KNAS is actively working to prevent discrimination based on gender, reduced functional ability, ethnic affiliation, nationality, color of skin, religion or beliefs.

There has not been reported any incidents in the KNAS office in 2019. The total employee sick leave was 3 % and several HSSE related activities have been performed to maintain a good and healthy working environment. KNAS supported the Head Office HSSE & Risk Management Annual Forum by engaging 3 external Norwegian guest speakers and organizing 4 safety related workshops.

The Company has not carried out any activity which has had a negative impact on the external environment.

6. Corporate Governance & Risks

The Board of Directors consists of 6 persons. KUFPEC Norway AS is one of the several area offices headed by a Country Manager (Managing Director) reporting directly to a Regional Manager at the head office in Kuwait.

The Company is participating in the entire E&P value chain. One of the highest risks is delivering complex development projects on time and schedule. General market conditions may also impact commerciality. Although the Company operates in a capital-intensive industry, the Company is well positioned as it is fully funded with equity and debt from KUFPEC. All projects and future investment decisions are tested with financial input parameters reflecting the projected commodity prices and uncertainty in the macroeconomic environment.

KUFPEC Norway AS has developed and is following a governance process for its engagement in non-operated ventures, thus exercising its "see-to-it-duty" and optimizing value for KUFPEC.

7. R&D

KUFPEC has defined as a strategic target to facilitate technology and capability transfer between Kuwait domestic and international upstream businesses within three core areas;

i) Improved Oil Recovery
ii) Heavy Oil
iii) High Pressure / High Temperature

KNAS has, through acquisition of the Greater Sleipner Area assets, ensured access to advanced technologies on CO2 injection, pipeline intervention while in operation (hot-tap) and Power from Shore. These technologies have been presented to head office as possible intra-group knowledge transfer topics. KNAS identified, towards sister company KOC, a technology development opportunity on downhole separation, which is currently being executed as a joint industry project.

8. Finance

The Income Statement for 2019 shows a total income for the year of USD 29,391 thousand. Profit from continuing operations is USD 122,467, impacted by decline in production and low gas prices. Effective tax rate is 76%, as the impact of uplift is offset by non-deductible depreciation of transaction consideration, exchange rate effect and finance cost not deductible for special tax.

The Directors propose this year's profit to be applied as follows:

Transfer to other equity:	USD 29,391 thousand

Positive cash flow from operations has funded investments in fixed assets of USD 106,131 thousand, and repayment of loan of USD 168,553 thousand.

The Company's tax loss carry-forward and tax balances, which makes up the major part of the Deferred Tax Asset, is NOK denominated and is exposed to currency risk to the extent that NOK/USD exchange rate varies compared to the year-end rate of NOK 8.78/1 USD. Further reference is made to the notes to the accounts.

Since the start of 2020 there has been a developing outbreak of COVID-19 (coronavirus). To date, we have not seen any material impact onto our operations. As a result of COVID-19, we have however seen macro-economic uncertainty with regards to prices and demand for oil, gas and products. On the other side, recent global developments and uncertainty in oil supply have caused further volatility in commodity markets. The scale and duration of these developments remain uncertain at the current time and could impact our earnings, cash flow and financial condition, both negatively from the demand side, as well as positively through an increasing global supply shortage.

The Board of Directors is of the opinion that the annual report provides a true and fair view of the Company's assets, debt, financial position and result. After the acquisitions in 2016 and 2017, the Company had a positive cash flow and is expecting the same in future years. The parent company, KUFPEC UK Ltd., and its parent company Kuwait Foreign Petroleum Exploration Company k.s.c., have confirmed its intension to grow the business in Norway and to continue to

provide financial support in the normal course of business. The Board of Directors has thus prepared the accounts on the basis of continued operations.

Stavanger, 23rd April 2020

Saeed Al Shaheen
Chairman of the Board

Waleed A R R Al Ben Ali
Board Member

Khaled Al Mullah
Board Member

Ali Al-Mousa
Board Member/General Manager

Steffen Pedersen
Board Member

Leif Sigmund Rosnes
Board Member

Income Statement

for the year ended 31st December 2019

		2019 *USD 000's*	2018 *USD 000's*
Continuing operations:			
Sales income	3	**444,316**	454,580
Other revenue	3	**-45,261**	25,902
Cost of operations	4,9	**-231,784**	-224,024
GROSS PROFIT		**167,272**	256,458
Exploration/New Venture expenditure written off	8	**-1,245**	-2,264
Net impairment (losses -) / reversals	9	**7,663**	3,160
General and administrative expenses	5,6,7,9	**-13,865**	-10,267
		-7,447	-9,371
PROFIT FROM CONTINUING OPERATIONS BEFORE FINANCE INCOME, FINANCE COSTS AND TAXATION		**159,825**	247,087
Interest income		**147**	258
Unwinding of discount on decommissioning provision	16	**-8,184**	-8,064
Foreign exchange (loss -)/gain		**1,997**	-3,380
Interest expense	15,22	**-31,318**	-37,531
PROFIT FROM CONTINUING OPERATIONS BEFORE TAXATION AND DIRECTORS' FEES		**122,467**	198,371
Income tax (expense -)/revenue	10	**-93,063**	-152,584
PROFIT BEFORE DIRECTORS' FEES		**29,404**	45,787
Directors' fees	6	**-14**	-21
PROFIT FOR THE YEAR		**29,391**	**45,766**

Statement of Financial Position - Assets

as at 31st December 2019

	Notes	2019 USD 000's	2018 USD 000's
ASSETS			
Current assets			
Cash and cash equivalents	11	**4,616**	21,672
Trade and other receivables	12	**103,491**	81,075
Inventories	13	**10,241**	42,458
		118,348	145,205
Non-current assets			
Property, plant and equipment	9	**903,796**	900,736
Deferred tax assets	10	**146,538**	239,601
		1,050,335	1,140,337
TOTAL ASSETS		**1,168,683**	1,285,542

Statement of Financial Position – Liabilities and Equity

as at 31st December 2019

	Notes	2019 USD 000's	2018 USD 000's
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	14	**52,773**	47,835
Due to Ultimate Parent Company and affiliates	15	**7,772**	5,184
Decommissioning provision, short term	16	**7,103**	-
		67,648	53,018
Non-current liabilities			
Decommissioning provision, long term	16	**237,620**	233,836
Pension liabilities		**600**	133
Lease Liability - ROUA	22	**3,427**	-
Long-term borrowing	15	**492,633**	661,191
		734,280	895,160
Total Liabilities		**801,928**	948,178
Equity			
Share capital	21	**10,695**	10,695
Share premium		**280,903**	280,903
Other equity		**75,157**	45,766
Total equity		**366,755**	337,364
TOTAL LIABILITIES AND EQUITY		**1,168,683**	1,285,542

Stavanger, 23rd April 2020

Saeed Al Shaheen
Chairman of the Board

Waleed A R R Al Ben Ali
Board Member

Khaled Al Mullah
Board Member

Ali Al Mousa
Board Member/
General Manager

Steffen Pedersen
Board Member

Leif Sigmund Rosnes
Board Member

Cash flow Statement

for the year ended 31st December 2019

	2019	2018
	USD 000's	*USD 000's*
Cash generated/(used -) by operations		
Profit before tax	**122,467**	198,371
Directors' fees	**-14**	-21
Taxes (paid -)/received	**-**	6,170
Depreciation	**119,127**	114,657
Impairment/(writeback)	**-7,663**	-3,160
Payment of decommissioning	**-5,694**	-2,935
Unwinding of Discount ARO	**8,184**	8,064
Change in inventory, accounts receivable/payable	**17,327**	-48,455
Changes in other balance sheet items	**3,894**	7
Net cash inflow/(outflow -) from operations	**257,628**	272,677
Cash generated/(used -) by investments		
Investments in fixed tangible assets (cash payment)	**-106,131**	-143,385
Net cash (outflow -)/inflow from investments	**-106,131**	-143,385
Cash generated/(used -) by financing		
New debt/ (repayment) of long term borrowing	**-168,553**	-41,758
Dividend paid	**-**	-71,759
Net cash (outflow -)/inflow from financing	**-168,553**	-113,517
Net change in cash flow during the year	**-17,056**	15,774
Cash at 01.01	**21,672**	5,898
Cash at 31.12	**4,616**	**21,672**

Changes in Equity

for the year ended 31st December 2019

	Share capital USD 000's	*Share premium USD 000's*	*Other Equity USD 000's*	*Total USD 000's*
At 1 January 2019	10,695	280,903	45,766	337,364
Profit for the year			29,391	29,391
At 31 December 2019	**10,695**	**280,903**	**75,157**	**366,755**
At 1 January 2018	10,695	280,903		291,598
Profit for the year			45,766	45,766
At 31 December 2018	**10,695**	**280,903**	**45,766**	**337,364**

Notes to the Financial Statements

1 CORPORATE INFORMATION

KUFPEC Norway AS ('the Company' or 'KNAS') is a fully owned subsidiary of KUPFEC UK Ltd, which again is fully owned by Kuwait Foreign Petroleum Exploration Company k.s.c., a wholly owned subsidiary of Kuwait Petroleum Corporation (KPC; the Ultimate Parent Company). The companies are jointly referred to as 'the Group'. KUFPEC Norway AS's registered address is P.O. Box 207, 4001 Stavanger, Norway. The principal activities of the Company are exploration and development of oil and gas in Norway. The main office for the corporation has the following address: KPC, P.O. Box 26565, Postal Code No 13126, Safat, Kuwait.

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared in accordance with Norwegian Accounting Act § 3-9 and regulations regarding simplified application of International Financial Reporting Standards ("IFRS") issued by the Ministry of Finance on 3 November 2014 ("Norwegian Simplified IFRS"). The Company has not applied any simplifications from the Norwegian Simplified IFRS compared to full IFRS with regards to recognition and measurement.

The financial statements have been prepared on a historical cost basis with no exceptions.

These financial statements have been prepared on a going concern basis as the Company projects positive future cash flow and as the Group has committed to provide financial support to secure sufficient funding of the Company's future activities.

The financial statements are presented in US Dollars (USD) and all values are rounded to the nearest thousand (USD 000's) except when otherwise indicated.

Changes in accounting policies and disclosures

With effect from 1 January 2019, KUFPEC implemented IFRS 16 Leases. There have been no other changes to the accounting policies in 2019.

Interest in licenses on the Norwegian Continental Shelf

Licenses held by KNAS on the Norwegian Continental Shelf are not deemed to be joint arrangements under the definition in IFRS 11 because there is no joint control. The Company recognizes its share of related expenses, assets, liabilities and cash flows on a line by line basis in the financial statements in accordance with applicable IFRSs.

Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents includes cash and bank balances, deposits and other short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities up to three months from the date of acquisition and that are subject to an insignificant risk of change in value.

Inventories

Inventories comprising mainly of KNAS' share of Joint Venture spare parts, materials and supplies which are valued at historic cost basis.

Oil and natural gas exploration, evaluation and development expenditure

Oil and natural gas exploration, evaluation and development expenditure are accounted for using successful efforts method of accounting, as described in the sections below.

Exploration and evaluation costs

Exploration and evaluation activity involve the search for mineral resources, the determination of technical feasibility and assessment of commercial viability of an identified resource.

Pre-license costs and general, non-well related exploration expenditure are expensed in the period in which they are incurred.

Costs directly associated with an exploration well are capitalized as exploration and evaluation intangible assets until the drilling of the well is complete and the results have been evaluated.

If no potentially commercial hydrocarbons are discovered, the exploration asset is written off as a dry well. If extractable hydrocarbons are found and, subject to further appraisal activity (e.g. the drilling of additional wells), are likely to be capable of being commercially developed, the costs continue to be carried as an intangible asset while sufficient/continued progress is made in assessing the commerciality of the hydrocarbons. Costs directly associated with appraisal activity undertaken to determine the size, characteristics and commercial potential of a reservoir following the initial discovery of hydrocarbons, including the costs of appraisal wells where hydrocarbons were not found, are initially capitalized as an exploration and evaluation intangible asset.

All such capitalized costs are subject to technical, commercial and management review as well as review for indicators of impairment at least once a year. This is to confirm the continued intent to develop or otherwise extract value from the discovery. If this is no longer the case, the costs are written off in the income statement.

When proved reserves of oil and natural gas are identified and development is sanctioned by management, the relevant capitalized expenditure is first assessed for impairment and (if required) any impairment loss is recognized, then the remaining balance is transferred to oil and gas properties. No amortization is charged during the exploration and evaluation phase.

Development costs

Expenditure relating to construction, installation or completion of infrastructure facilities such as platforms, seismic geological and geophysical studies, finance charges, pipelines and the drilling of development wells, including unsuccessful development or delineation wells, is capitalized within oil and gas properties.

Acquisition costs

When the Company acquires licenses on the NCS which are not deemed to be joint arrangements under the definition in IFRS 11 because there is no joint control, such acquisitions are treated as an asset acquisition. The acquisition cost is allocated across the assets and capitalized, based on the economic evaluation which formed the basis of the Company's bid. A decommissioning provision is calculated and recognized as applicable, and the net of the decommissioning provision and deferred tax on the provision is capitalized. Transaction cost is also capitalized.

Oil and gas properties and other fixed assets

Oil and gas properties and other fixed assets are stated at cost, less accumulated depreciation and accumulated impairment losses. The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the decommissioning obligation, and for qualifying assets (where applicable), borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

When a development project moves into the production stage, the capitalization of certain construction/development costs cease, and costs are either regarded as part of the cost of inventory or expensed; except for costs which qualify for capitalization relating to oil and gas property asset additions, improvements or new developments.

Decommissioning costs and provisions

The decommissioning provision is calculated based on the net present value of the Company's share of the estimated future cost of decommissioning and site restoration required for facilities in place. This is calculated using the latest estimates provided by the Company's technical staff, which is based upon estimates provided by the field operators. An associated decommissioning asset is recognized, which is amortized for each field on a unit-of-production basis in accordance with the Company's policy for depreciation, depletion and amortization of oil and gas properties. Period charges for changes in the net present value of the decommissioning provision arising from the unwinding of the discount are included in finance costs in the income statement.

The Company recognizes a decommissioning provision when it has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. The obligation generally arises when the asset is installed, or the ground/ environment is disturbed at the field location.

Changes in the estimated timing of decommissioning or decommissioning cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to oil and gas properties.

If the change in estimate results in an increase in the decommissioning liability and, therefore, an addition to the carrying value of the asset, the Company considers whether this is an indication of impairment of the asset as a whole, and if so, tests for impairment in accordance with IAS 36. If the revised oil and gas assets, net of decommissioning provisions, exceed the recoverable value, that portion of the increase is charged directly to the income statement.

Depreciation, depletion and amortization

Oil and gas properties are depreciated, depleted and amortized on a unit-of-production basis over the total proved developed and undeveloped reserves of the field concerned. The unit-of-production rate calculation for the depreciation, depletion and amortization of field development costs takes into account expenditures incurred to date, together with sanctioned future development expenditure. Oil and gas reserves, both proved developed and undeveloped reserves, are calculated using the latest estimates provided by the Company's technical staff, which are based on estimates provided by the field operator.

Other fixed assets are generally depreciated on a straight-line basis over their estimated useful lives.

An item of oil and gas properties and other fixed assets initially recognized, is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in income statement when the asset is derecognized.

The asset's residual values, useful lives and methods of depreciation, depletion and amortization are reviewed at each reporting period, and adjusted prospectively if appropriate.

Impairment of oil and gas properties and other fixed assets

The Company assesses at each reporting date whether there is an indication that an asset or a cash-generating unit ("CGU") may be impaired. The Company classifies fields in production or under development as CGUs. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's or CGU's recoverable amount. Recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the asset is tested as part of a larger CGU to which it belongs.

Where the carrying amount of a CGU exceeds its recoverable amount, the CGU is considered impaired and is written down to its recoverable amount. In calculating value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU. Future net revenues are derived from the estimated remaining commercial reserves, using prices and costs according to management's forecast at the year end. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, publicly quoted prices for asset transactions or other available fair value indicators.

For CGUs excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the CGU's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the CGU does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the CGU in prior years. Such a reversal is recognized in the income statement unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase and is recognized through the statement of comprehensive income.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive), as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement.

Pension liabilities

For base salary up to 12G, the Company operates a defined benefit pension plan for its employees. Defined benefit plans are valued at the present value of accrued future pension benefits at the end of the reporting period less pension plan assets which are valued at their fair value.

Changes in the pension obligation due to changes in pension plans are recognized over the estimated average remaining service period. The net pension cost for the period is classified as salaries and personnel cost.

Foreign currencies

The functional currency for the Company is US Dollars (USD).

Transactions in foreign currencies during the year are recorded in the functional currency at the transaction date. Monetary assets and liabilities are translated using rates prevailing at the statement of financial position date, and any gains and losses on translations 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.

Revenue recognition

Revenue is recognized to the extent it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, sales taxes, excise duties and similar levies.

Revenue from contracts with customers is recognized upon satisfaction of the performance obligations for the transfer of goods and services in each such contract. Other revenue is recognized when the risk passes to the customer, and he obtains control of those products. The changes in over-/under-lift balances are also classified as 'Other revenues'. Revenue is presented net of customs, excise taxes and royalties paid in-kind on petroleum products.

Revenues from petroleum products in which the Company has an interest with other producers are recognized on the basis of the Company's proportionate share of production during the period, regardless of actual sales (entitlement method). This is achieved by applying the following approach in dealing with imbalances between actual sales and entitlements:

The excess of product sold during the period over the participant's ownership share of production from the property is recognized by the over-lift party as a short-term liability (deferred revenue) and not as revenue. Conversely, the under-lift party would recognize an under-lift asset (short-term receivable) and report corresponding revenue. The value of over-lift/under-lift is set at the estimated sales value, minus estimated sales costs.

Taxation

Income tax expense represents the sum of current tax payable/receivable and change in deferred tax.

The current tax payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the statement of financial position date. Under Norwegian tax legislation a company which has a net tax loss has the right to have the tax value of exploration expenditure refunded in the following year. Such refund is reflected as current tax income in the income statement and as a short-term receivable on the statement of financial position.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the statement of financial position date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the statement of financial position date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities.

Current and deferred tax for the period are recognized as an expense or income in the income statement, except when they relate to items recognized in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities, and contingent liabilities over cost.

Tax losses can be brought forward regardless of when it occurred. If there remains an uncovered loss upon the discontinuation of activities that are liable for special tax, the

Company may claim payment from the Norwegian State of the tax value of such loss, in accordance with the Petroleum Taxation Act.

Accounting for leases

The company recognises in the balance sheet, each contract that meets its definition of a lease as right-of-use asset and a lease liability. All leases, except leases of short term (less than 12 moths) and leases of low value, are recognised as a lease liability and a right of use asset in the balance sheet. At initial recognition the lease liability and right of use asst is measured as the present value of the lease payments, discounted using an incremental borrowing rate. The lease payments are reflected as interest expense and a reduction of lease liabilities. The right-of-use assets are to be depreciated over the shorter of each contract's term and the assets' useful life of the asset.

Significant accounting judgements, estimates and assumptions

The preparation of the Company's financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates if different assumptions were used and different conditions existed.

In particular, the Company has identified the following areas where significant judgements, estimates and assumptions are required, and where if actual results were to differ, may materially affect the financial position or financial results reported in future periods. Further information on each of these and how they impact the various accounting policies are described in the relevant notes to the financial statements.

Reserve and resource estimates

Oil and gas production properties are depreciated on a unit-of-production basis at a rate calculated by reference to total proved developed and undeveloped reserves determined using the latest estimates provided by the Company's technical staff, which are based on estimates provided by the field operator. Commercial reserves are determined using estimates of oil in place, recovery factors and future oil price assumptions, the latter having an impact on the total amount of recoverable reserves. Future development costs are estimated using assumptions as to the number of wells required to produce the commercial reserves, the cost of such wells and associated production facilities, and other capital costs.

As the economic assumptions used may change and as additional geological information is produced during the operation of a field, estimates of recoverable reserves may change. Such changes may impact the Company's reported financial position and results for the carrying value of assets, depreciation/depletion/amortization charges, and provisions for decommissioning.

Exploration and evaluation expenditures

The application of the Company's accounting policy for exploration and evaluation expenditure requires judgement in determining whether it is likely that future economic benefits are likely either from future exploitation or sale or, where activities have not reached a stage which permits a reasonable assessment, of the existence of reserves. The deferral policy requires management to make certain estimates and assumptions as to future events and circumstances. Any such estimates and assumptions may change as new information becomes available. If, after expenditure is capitalized, information becomes available suggesting that the recovery of the expenditure is unlikely, the relevant capitalized amount is written off in the income statement in the period when the new information becomes available.

Recoverability of oil and gas properties

The Company assesses each asset or cash generating unit (excluding goodwill, which is assessed annually regardless of indicators) every reporting period to determine whether any indication of impairment exists.

Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long-term oil prices, discount rates, operating costs, future capital requirements, decommissioning costs, exploration potential, reserve estimates, and operating performance (which includes production and sales volumes). These estimates and assumptions are subject to risk and uncertainty. Therefore, there is a possibility that changes in circumstances will impact these projections, which may impact the recoverable amount of assets and/or CGUs.

Decommissioning costs

Decommissioning costs will be incurred by the Company at the end of the operating life of some of the Company's facilities and properties. The Company assesses its decommissioning provision at each reporting date. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors, including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing, extent and amount of expenditure can also change, for example in response to changes in reserves or changes in laws and regulations or their interpretation. Therefore, significant estimates and assumptions are made in determining the provision for decommissioning. As a result, there could be significant adjustments to the provisions established which would affect future financial results. The provision at reporting date represents management's best estimate of the present value of the future decommissioning costs required.

Changes to accounting standards and interpretations

New and amended standards and interpretations adopted by the Company:

IFRS 16 Leases

IFRS 16 Leases was issued in January 2016 and replaced the lease accounting standard, IAS 17 Leases, including related interpretations. The new standard introduced a single on-balance sheet accounting model for all leases, which resulted in the recognition of a lease liability and a right of use asset in the balance sheet. The company has applied a modified retrospective approach with no restatement of comparative figures. The lease liability at the date of initial application will thus be measured at the present value of the remaining lease payments, discounted using an incremental borrowing rate. IFRS 16 has had an material impact due to a long-term lease arrangement on rented office space.

New and amended standards and interpretation issued but not adopted by the Company:

A number of new standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, KUFPEC Norway AS has not early adopted the new or amended standards in preparing these financial statements. The following amended standards and interpretations are not expected to have a significant impact on the KUFPEC Norway's financial statement.

– Amendments to References to Conceptual Framework in IFRS Standards.

– Definition of a Business (Amendments to IFRS 3).

– Definition of Material (Amendments to IAS 1 and IAS 8).

– IFRS 17 Insurance Contracts.

3 SALES INCOME AND OTHER REVENUE

Revenue recognized in the income statement is analyzed as follows:

	2019 USD 000's	2018 USD 000's
Oil sales	302,795	262,757
NGL sales	37,491	30,995
Gas Sales	104,030	160,827
Total Sales Income	**444,316**	**454,580**

	2019 USD 000's	2018 USD 000's
Changes to over/underlift	-45,300	22,276
Settlement Yme MOPU	-	3,582
Misc. Income	39	44
Total Other Revenue	**-45,261**	**25,902**

4 COST OF OPERATIONS

	2019 USD 000's	2018 USD 000's
Operating cost joint ventures	62,666	63,445
Insurance	5,963	4,447
Pipeline tariffs and marketing cost	33,986	26,917
Income Sharing Sleipner	10,567	14,685
Depreciation of producing fields	118,601	114,529
	231,784	**224,024**

5 AUDITORS' REMUNERATION

The Company paid the following amounts to its auditors EY in respect of the audit of the financial statement and for other services provided to the Company.

	2019 USD 000's	2018 USD 000's
Audit of financial statements	46	50
Tax advisory services	25	15
Other services	10	
	81	**65**

6 EMPLOYMENT COST

Total remuneration for 2019 to the Board of directors is USD 13,700.

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

	2019 USD 000's	2018 USD 000's
Wages and salaries	7,728	6,207
Social Security costs	1,222	993
Pension costs	1,112	625
Other salary related costs	404	281
	10,465	**8,105**

Remuneration of Managing Director:

	2019 USD 000's	2018 USD 000's
Annual Salary	917	862
	917	**862**
Man-years in the accounting year (KNAS employees)	21	19

7 SPECIFICATION OF ADMINISTRATIVE EXPENSES

	2019 USD 000's	2018 USD 000's
Salary and personnel cost	10,465	8,105
Office cost	124	605
Consultants, legal and professional fees	985	937
Training and travel expenses	127	154
Entertainment, PR and commercial cost	54	157
IT, communication	616	588
Other general/admin cost	121	168
Office asset depreciation	85	128
Depreciation of capitalised office lease (IFRS16)	440	-
Timewriting charges to Group companies	-1,309	-944
Cost allocated from Head Office	2,156	368
	13,865	**10,267**

8 EXPLORATION COST IN THE INCOME STATEMENT

	2019 USD 000's	2018 USD 000's
Expensed drilling and exploration cost	926	1,265
Licence rounds	-	3
New Venture cost (Business Development)	318	996
	1,245	**2,264**

9 INTANGIBLE ASSETS AND PROPERTY, PLANT & EQUIPMENT

	Property, Plant & Equipment				
	Facilities in development	Production facilities including wells	Office equipment etc.	Right of Use Asset	Total
	USD 000's	USD 000's	USD 000's	USD 000's	USD 000's
Cost					
At 1st January 2018	84,467	954,174	1,182	-	1,039,823
Additions	41,089	102,074	222	-	143,385
Transferred from development to producing	-	-			-
Changes to decommissioning asset	-634	(1,055)			-1,688
Clearing of assets (see below)	-	-	-	-	-
As at 31st Dec 2018 and 1st Jan 2019	124,923	1,055,193	1,404	-	1,181,520
Additions	39,419	62,236	188	4,288	106,131
Transferred from development to producing	-29,529	29,529	-	-	-
Changes to decommissioning asset	-949	9,341	-	-	8,392
As at 31st December 2019	133,864	1,156,299	1,593	4,288	1,296,044
Accumulated depreciation/impairment					0
At 1st January 2018	223,361	168,324	963	-	392,648
Depreciation charge for the year	-	114,529	128	-	114,657
Impairment charge/(writeback) for the year	-69,647	-3,160	-		-72,807
Clearing of assets (see above)	-153,714	-	-	-	-153,714
As at 31st Dec 2018 and 1st Jan 2019	-	279,693	1,091	-	280,784
Depreciation charge for the year	-	118,601	85	440	119,127
Impairment charge/(writeback) for the year	-	-7,663	-	-	-7,663
As at 31st December 2019	-	390,631	1,176	440	392,247
Net book value					
As at 31st December 2019	133,864	765,668	416	3,848	903,796
As at 31st December 2018	124,923	775,500	313	-	900,736

The depreciation of production facilities is based on the unit-of-production method. Office equipment (mainly IT hardware and software) is depreciated over 5 years. Leasehold improvements and Right of Use Asset, representing office lease, are depreciated over the lease period.

Adjustment to the decommissioning provision for Gyda and Tambar East is capitalized as decommissioning asset and impaired straight away as these assets are fully impaired.

The impairment charge for the year is broken down as follows:

	USD 000's
Gyda - updated ARO provision	-7,644
Tambar East - updated ARO provision	-19
Impairment/(write-back) per income statement	**-7,663**

10 TAXATION

	USD 000's	USD 000's
Basis for taxes	2019 USD 000's	2018 USD 000's
Profit/(loss) before taxes (after directors' fees)	122 467	198 348
Other comprehensive income (pensions)	-	-
Permanent differences	427	-57
Depreciation of permanent diff	14 046	12 712
Change in temporary differences	-88 223	-135 040
Less temp diffs 30.11.17 booked as part of asset transaction	-	-
Taxable profit/(loss) 2017 from new asset (section 10)	-	-
Exchange rate effects NOK/USD	-1 822	-7 239
Basis for corporate tax payable (22%)	46 896	68 724
Financial items without special tax	21 759	28 860
This year's effect of uplift on taxable income	-48 549	-65 328
Basis for special tax payable (56%)	20 106	32 256
Tax payable/(receivable) excl exploration refund	-	-

Tax expense	2019 USD 000's	2018 USD 000's
Tax payable	-	-
Corporate tax on current year tax loss carried forward	10 317	15 806
Special tax on current year tax loss carried forward (incl uplift)	11 259	17 741
Tax value of exploration costs - corporate tax	-	-
Tax value of exploration costs - special tax	-	-
Interest on loss carry forward for corporate tax	-551	-388
Interest on loss carry forward for special tax	-2 695	-1 527
Effect of changes in tax rates on opening balance loss carry forward	-	-1 567
Prior year adjustments	1 540	1 238
Change in deferred tax on temporary differences	68 814	105 331
Exchange effects on opening balances; temporary differences and loss carry forward	4 379	15 950
Deferred tax from asset transaction (2017 tax loss, temp diffs)	-	-
Tax expense/income(-)	93 063	152 584

Temporary differences/Loss carry forward	2019 USD 000's	2018 USD 000's
Inventory of petroleum	-6 502	9 102
Pension provision	-600	-133
Fixed assets	371 873	250 783
Lease liability	-3 048	-
Gain Loss Account	9 569	12 152
Asset Retirement Obligation	-234 899	-223 854
Total temporary differences corporate tax regime	136 392	48 049
Tax loss carry forward corporate tax	-195 235	-232 169
Tax loss and uplift carry forward special tax	-374 998	-406 692
Deferred tax		
Deferred corporate tax (22% 31.12.18, 22% 31.12.19)	-12 852	-42 348
Deferred special tax asset (56% 31.12.18, 56% 31.12.19)	-133 687	-197 254
Net deferred tax liabilities/assets (-)	-146 538	-239 601

Calculation of total taxes	2019 USD 000's	2018 USD 000's
Profit before taxes	122 467	198 348
Other comprehensive income (pension)	0	0
	122 467	198 348
Expected tax 78%	-95 525	-154 712
Exchange rate effects NOK/USD	-3 624	-10 214
Permanent differences	333	-45
Depreciation of permanent differences - tax effect	-10 956	-9 915
Financial items, special tax	-12 185	-15 873
Current year's uplift	27 187	35 930
Interest on loss carry forward	3 246	1 915
Effect of changes in tax rates on closing balance loss carry forward	0	1 567
Prior year's adjustment/other	-1 540	-1 238
Total taxes	-93 063	-152 584
Effective tax rate	76 %	77 %

11 CASH AND CASH EQUIVALENT

	2019 USD 000's	2018 USD 000's
Cash at bank (unrestricted)	3,875	21,347
Cash at bank (restricted withholding tax funds)	741	325
	4,616	**21,672**

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

12 TRADE AND OTHER RECEIVABLES

	2019 USD 000's	2018 USD 000's
Trade receivables	74,124	30,242
Yme escrow account	-	86
Licenses; receivables and prepayments	14,840	16,489
Licenses; overcall	10,759	17,659
Prepayments and deferred charges	2,057	1,383
Underlifting Recoverables	1,688	-
Other receivables	23	15,217
	103,491	**81,075**

13 INVENTORIES

	2019 USD 000's	2018 USD 000's
Underlift crude oil	-	26,184
Underlift NGL	-	4,988
Materials - Joint Ventures	10,241	11,285
	10,241	**42,458**

As from 2019 under-lift of crude oil and NGL is reported as a receivable, ref note 12.

14 TRADE AND OTHER PAYABLES

	2019 USD 000's	2018 USD 000's
Trade payables	2,213	3,644
Licenses; payables and accruals	20,846	42,106
Accruals and deferred income	3,835	810
Payroll and taxes	1,646	1,235
Overlifting Liabilities	15,816	-
Other liabilities	481	-
VAT payable	7,936	39
	52,773	**47,835**

15 INTERCOMPANY ACCOUNTS AND TRANSACTIONS

	2019 USD 000's	2018 USD 000's
Intercompany payable, short term	7,772	5,184
Intercompany payable, long term	492,633	661,191
	500,405	**666,374**

No intercompany liabilities are lent by security. The long-term payable is an USD intercompany loan from KUFPEC UK Limited. Interest calculated on the intercompany loans is LIBOR + 3.0 %.

The Company charged the following cost to other Group companies:

	2019 USD 000's	2018 USD 000's
Timewriting charges to KUFPEC UK Ltd	1,259	935
Recharge of expenses to KUFPEC UK Ltd	40	24
Timewriting charges to KUFPEC k.s.c.	55	7
Recharge of expenses to KUFPEC k.s.c.	1,406	21
	2,759	**988**

The following cost has been charged to KNAS from other Group companies:

	2019 USD 000's	2018 USD 000's
Interest on Intercompany loan	31,067	37,381
Recharge og insurance and JV audit fee	7,700	4,958
Guarantee fee	125	132
Head Office timewriting charges	1,963	-
Salaries secondees	1,628	935
Travel cost support from Head Office	193	358
	42,677	**43,764**

16 ASSET RETIREMENT OBLIGATION

	2019 USD 000's	2018 USD 000's
Opening balance	233,836	230,395
Revisions to estimates	8,398	-1,688
Payment of decommissioning	-5,694	-2,935
Unwinding of discount	8,184	8,064
	244,724	**233,836**
Short term ARO provision	7,103	-
Long term ARO provision	237,620	233,836
	244,724	**233,836**

17 DRILL COMMITMENTS

There are no drill commitments in any of the licenses in which the Company has an ownership share.

18 OBLIGATIONS UNDER OPERATING LEASES AND OTHER NON-CANCELLABLE CONTRACTS

Future minimum commitments under non-cancellable operating leases contracts and other non-cancellable contracts:

	2019 USD 000's	2018 USD 000's
Within one year - KNAS's contracts	1,277	964
Between 1 and 5 years - KNAS's contracts	649	2,102
Within one year - non-operated licenses	20,299	43,299
Between 1 and 5 years - non-operated licenses	51,754	72,408
	73,979	**118,772**

The obligations shown above excludes lease commitments per 31.12.19 for leases accounted for under IFRS16, ref. note 22.

19 RELATED PARTY DISCLOSURES

KUFPEC Norway AS has not provided any loans or guarantees to management, employees or board members. For the purpose of related party disclosure in accordance with IAS 24, only directors are considered to be key management personnel. For compensation of key management personnel, note 6 contains additional information regarding remuneration of management – Managing Director.

KUFPEC k.s.c. has provided a guarantee on behalf of the Company for decommissioning liabilities on acquired assets. Guarantee fee is paid to KUFPEC k.s.c. based on an arm's length principle assessment.

For transactions and outstanding balances vs. other Group companies, reference is made to Note 15.

20 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.

(i) Commodity price risk
The Company is exposed to commodity price risk. There are currently no hedging arrangements in place.

(ii) Foreign currency exchange risk

The Company has potential currency exposures in respect of items denominated in foreign currencies relating to operating and finance income/cost and capital expenditure incurred in other currencies than the functional currency of operations. There are currently no hedging arrangements in place.

(iii) Interest rate risk
The Company is exposed to interest rate risk through the long-term loan (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.

(c) Liquidity risk
Liquidity risk is the risk that sources of funding for the Company's business activities are not available. The primary source of funding of the Company's activities is intercompany borrowing. The Board ensures that sufficient funding is available before committing to any significant expenditure.

21 SHAREHOLDERS AND NUMBER OF SHARES

The share capital in KUFPEC Norway AS is NOK 78,000,000 distributed over 600 shares each at face value NOK 130,000. KUFPEC UK Ltd holds all the shares.

The chairman of the Board is Saeed Al Shaheen. Other members of the Board are Waleed Al-Ben Ali, Khaled Al Mullah, Ali Al-Mousa, Steffen Pedersen and Leif Sigmund Rosnes. The chairman solely or two board members jointly are empowered to sign for the Company.

22 LEASE LIABILITY – RIGHT OF USE ASSET AND OTHER LEASES

As shown in note 9, a Right of Use Asset was recognized per 01.01.19 for the lease of offices in Ankerbygget, Stavanger. Further details for this lease:

	2019 USD 000's
New lease liability Right of Use Asset - 01.01.	4,288
Lease Liability - Balance 31.12.	3,427
Interest calculated on lease liability	159

Payments in year for leases under IFRS and other leases

	2019
	USD 000's
Leases under IFRS 16	485
Short term leases, IFRS 16 not applied	1
Low value leases, IFRS 16 not applied	6
Total lease payments	**492**

Future obilgations for leases under IFRS 16:

	2019
	USD 000's
Within one year	487
Between 1 and 5 years	1,948
	2,435

23 SUBSEQUENT EVENTS

Since the start of 2020 there has been a developing outbreak of COVID-19 (coronavirus). To date, we have not seen any material impact onto our operations. As a result of COVID-19, we have however seen macro-economic uncertainty with regards to prices and demand for oil, gas and products. On the other side, recent global developments and uncertainty in oil supply have caused further volatility in commodity markets. The scale and duration of these developments remain uncertain at the current time and could impact our earnings, cash flow and financial condition, both negatively from the demand side, as well as positively through an increasing global supply shortage.

24 LICENSES

The Company holds the following licenses on the Norwegian Continental Shelf:

Share	License	Operator	Status	Lic. Expires:
30%	Gina Krog Unit (PL029B/C, PL048)	Equinor Energy AS	Producing oil and gas	31.12.2032
10%	Sleipner East Unit (PL046)	Equinor Energy AS	Producing gas and condensate	31.12.2028
9.4112%	Sleipner West Unit (PL046)	Equinor Energy AS	Producing gas and condensate	31.12.2028
5%	Gyda (PL019B/F/G)	Repsol Norge AS	Production till Q1 2020. Well plug and abandonment has started, and decommissioning must be completed by 2023.	N/A
0.8 %	Tambar East Unit	Aker BP ASA	Production	-
6.2%	Utgard Unit (PL046E/F)	Equinor Energy AS	Producing gas and condensate	31.12.2028
10%	Yme (PL316/PL316B)	Repsol Norge AS	Development ongoing	18.06.2030
21.8%	Eirin (PL048E)	Equinor Energy AS	Discovery	31.12.2028
20%	PL850	Edison Norge AS	Exploration in the Barents Sea	05.05.2025

25 PROVED AND PROBABLE RESERVES (NOT AUDITED)

Amounts in million barrels of oil equivalents (BOE):

Proved and probable (2P) reserves as of 01.01.19	71.7
Acquisitions in 2019	-
Production in 2019	- 8.7
Revisions	1.9
Proved and probable (2P) reserves as of 31.12.19	65.0

Skattedirektoratet

Saksbehandler	Deres dato	Vår dato
Torstein Kinden Helleland	28.04.2014	06.05.2014
Telefon	Deres referanse	Vår referanse
22078139	008-14	2014/317529

KUFPEC NORWAY AS
Postboks 207
4001 STAVANGER

Tillatelse til å utarbeide årsregnskap og årsberetning på engelsk språk for KUFPEC Norway AS, org. nr. 946 680 591

Det vises til deres brev av 28. april 2014 der det søkes om dispensasjon fra kravet til å utarbeide årsregnskap og årsberetning på norsk språk for KUFPEC Norway AS.

Skattedirektoratet gir på bakgrunn av en konkret helhetsvurdering KUFPEC Norway AS dispensasjon fra kravet til å utarbeide årsregnskap og årsberetning på norsk språk, jf. regnskapsloven § 3-4 tredje ledd. Dispensasjonen forutsetter at opplysningene som vedtaket baserer seg på ikke endres vesentlig.

Kopi av dette brevet må sendes Regnskapsregisteret i Brønnøysund sammen med årsregnskapet. Det påligger den regnskapspliktige å dokumentere ved dette brev at tillatelsen er gitt.

Bakgrunn
KUFPEC Norway AS er et heltid datterselskap av KUFPEC UK Ltd som igjen er 100 % eid av Kuwait Foreign Petroleum Exploration Company. Majoriteten av styrets medlemmer behersker ikke norsk. Selskapet driver virksomhet innen oljesektoren. Arbeidsspråket er engelsk både i selskapet og i konsernet forøvrig. Alle sentrale aktører og samarbeidspartnere innen denne bransjen behersker og benytter engelsk. En norsk oversettelse vil kun ha til formål å oppfylle regnskapslovens språkkrav.

Skattedirektoratets vurdering
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*

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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. Gode regnskaper 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.

Det er etter Skattedirektoratets vurdering derfor avgjørende ved vurdering av om dispensasjon fra kravet til å utarbeide årsregnskap og/eller årsberetning på norsk kan gis, at det ikke foreligger mulige brukere av regnskapsinformasjon som blir vesentlig berørt negativt ved en eventuell dispensasjon.

Det er særlig hensynet til brukerne av regnskapsinformasjon som skal vurderes ved en dispensasjonssøknad. I denne vurderingen har Skattedirektoratet lagt særlig vekt på at selskapet er et datterselskap til et utenlandsk selskap og inngår i et internasjonalt konsern. Eierkretsen er begrenset. Arbeidsspråket er engelsk og all kommunikasjon skjer på engelsk. Videre er det vektlagt at selskapet driver virksomhet i en internasjonal bransje der alle aktører behersker og benytter engelsk språk.

Vennligst oppgi vår referanse ved henvendelser i saken.

Med hilsen

Rune Tystad
Rune Tystad
seniorrådgiver
Rettsavdelingen, foretaksskatt
Skattedirektoratet

Torstein Kinden Helleland

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INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of KUFPEC Norway AS

Report on the audit of the financial statements

Opinion

We have audited the financial statements of KUFPEC Norway AS, which comprise the balance sheet as at 31 December 2019, the income statement, and 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 2019 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.

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Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including 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 the going concern assumption, and proposal for the allocation of the result is consistent with the financial statements and complies with the law and regulations.

Opinion on registration and documentation

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

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Stavanger, 13 May 2020
ERNST & YOUNG AS

Tor Inge Skjellevik

Tor Inge Skjellevik
State Authorised Public Accountant (Norway)