NORECO OIL DENMARK A/S

ANNUAL REPORT 2019

Adopted by the Annual General Meeting on
30 June 2020

Chairman of the meeting

NORECO OIL DENMARK A/S
Midtermolen 3, 4.th., 2100 Copenhagen
CVR-nr. 78 34 27 14

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Statements

Management’s review

The Board of Directors and the Executive Board have today discussed and approved the annual report of Noreco Oil Denmark A/S for the financial year 1 January – 31 December 2019.

The annual report has been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2019 and of the results of the Company's operations and cash flows for the financial year 1 January – 31 December 2019.

Further, in our opinion, the Management's review gives a fair review of the development in the Company's activities and financial matters, of the results for the year and of the Company's financial position.

We recommend that the annual report be approved at the annual general meeting.

Copenhagen, 30 June 2020

Executive Board

Atle Sonesen

Board of Directors

Lars Purlund
Chairman

Erik Borg

Riulf Frederik Rustad

Independent auditor's report

To the shareholders of Noreco Oil Denmark A/S

Opinion

We have audited the financial statements of Noreco Oil Denmark A/S for the financial year 1 January – 31 December 2019, comprising income statement, balance sheet and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.
In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2019 and of the results of the Company's operations for the financial year 1 January – 31 December 2019 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements 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 International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibility for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control that 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 in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatements, 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 ISAs and the additional requirements in Denmark will always detect a material misstatement when it exists. Misstatements may 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 financial statement users made on the basis of these financial statements.
As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also

- identify and assess the risks of material misstatement of the company 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 controls.

— 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 in preparing the financial statements 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 contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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 controls that we identify during our audit.

Statement on the Management's review

Management is responsible for the Management's review.
Our opinion on the financial statements does not cover the Management's review, 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 Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.
Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.
Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatements of the Management's review.

Copenhagen, 30 June 2020
KPMG
Statsautoriseret Revisionspartnerselskab
CVR no. 25 57 81 98

Jon Beck
State Authorised
Public Accountant
mne32169

Company Information

The Company	Noreco Oil Denmark A/S Midtermolen 3, 4.th. DK - 2100 Copenhagen CVR-nr: 78 34 27 14 Financial year: 1 January – 31 December Registered municipality: Copenhagen
Board of Directors	Lars Purlund, Chairman Riulf Frederik Rustad Erik Borg
Executive Board	Atle Sonesen
External Auditors	KPMG Statsautoriseret Revisionspartnerselskab Dampfærgevej 28 DK - 2100 København Ø

Financial Highlights

	2019	2018	2017	2016	2015
Income Statement (USD million)					
Revenue	280.4	0.4	0.6	0.7	5.0
Profit (loss) before financial items	25.2	(15.3)	(46.7)	(0.7)	(10.0)
Net financial items	(0.4)	(7.3)	(9.7)	(10.8)	(26.0)
Profit (Loss) for the year	364.5	(21.1)	(55.6)	(2.5)	(43.0)
Balance sheet (USD million)					
Total Assets	2,395.3	16.0	29.0	71.7	73.0
Shareholders' Equity	271.9	(61.7)	(172.6)	(117.1)	(115.0)
Investments (USD million)					
Production licence	156.0	0.0	0.0	0.0	0.0
Production facilities	694.3	0.0	0.0	0.0	0.0
Financial ratios					
Average oil price (USD/bbl)	64	72	48	52	51
Operating margin	9%	-38%	-78%	94%	-200%
Return on invested capital	4%	46%	1666%	-4%	-28%
Return on Equity	347%	18%	38%	2%	47%
Equity ratio	11%	-385%	-596%	-163%	-156%
Average number of employees	9	1	2	3	7

Financial ratios are calculated in accordance with the guidelines "Recommendations & Ratios" issued by the Danish Society of Financial Analysts.
The key figures are calculated as shown below:

Operating margin $$\frac{\text{Profit (loss) before financial items x 100}}{\text{Net sales}}$$

Return on invested capital $$\frac{\text{Profit (loss) before financial items x 100}}{\text{Average invested capital*}}$$

Return on Equity $$\frac{\text{Profit (loss) for the year x 100}}{\text{Average equity}}$$

Equity ratio $$\frac{\text{Equity, year-end x 100}}{\text{Total liabilites, year-end}}$$

*) Average invested capital is calculated as total liabilities less non interest bearing debts, and Cash in hand and at Bank

Directors Report

Noreco Oil Denmark A/S is a wholly owned subsidiary of the Noreco Group. Reference is made to the website www.noreco.com.

In October 2018, Noreco announced the acquisition of Shell's Danish upstream assets, including a 36.8% interest in the Danish Underground Consortium (the "DUC"), for a consideration of USD 1.334 billion. The DUC accounts for the majority of Danish oil and gas production and is the owner of key points of infrastructure of all activity in the Danish sector of the North Sea, including the four production hubs Halfdan, Tyra, Dan and Gorm.

The transaction was closed 31 July 2019. Immediately following this the economic interest in DUC was assigned to Noreco Oil Denmark A/S from Shell Olie- og Gasudvinding Danmark B.V.

As part of the Transaction with Shell, Noreco increased its reserves and production base significantly. The transaction included proven and probable (2P) reserves of 209 million barrels of oil equivalent (mmboe) based on an independent CPR assessment as per year-end 2019. The transaction was approved by the Danish Energy Agency in April 2019 and was completed in July 2019.Through the acquisition of Shell Olie- og Gasudvinding Danmark B.V. ("SOGU"), Noreco became the second largest oil and gas producer in Denmark and a considerable E&P company.

Noreco now has a 36.8% non-operated interest in the Danish Underground Consortium ("DUC") with assets that comprise 15 fields in four producing hubs; Halfdan, Tyra, Gorm and Dan. DUC is a joint venture between Total (43.2%), Noreco (36.8%) and Nordsøfonden (20.0%). DUC is operated by Total which has extensive offshore experience in the region and worldwide.

Key operations and profit

In 2019 the net profit before tax amounted to USD 24.7 million (2018 USD -22.7 million). Total revenues for 2019 amounted to USD 280.4 million (2018 USD 0.4 million). Realized average oil price for 2019 was USD 64 per barrel compared to USD 72 per barrel the previous year.

The revenue in 2019 was achieved by a production of 3.9 million barrels of oil and 213,9 million nm^3 of gas from the company's share in the DUC and Lulita fields, compared to 9 thousand barrels of oil and 1.1 million nm3 of gas the previous year. The increase was due to the acquisition of the economic interest in DUC in July 2019.

The result was significantly impacted by the recognition of the company's tax losses, enabled by the acquisition of the DUC interest and the associated expected future profits. The income from recognition of tax losses amounted to USD 379 million.

The company's equity amounted to USD 271.9 million as of 31 December 2019 compared to USD -61,7 million as of 1 January 2019.

The company

In 2019, the company participated in the following licences/concessions:

Licence	Field	Ownership %
DK 1/90	Lulita	10.000
DK Sole Concession of 8 July 1962	DUC	36.800

As part of the negotiations for a general solution to Noreco's restructuring during the winter of 2015, the parties to the Nini and Cecilie licences agreed to take over all the rights and obligations related to the licences except for the obligations related to decommissioning of the fields. Noreco remain liable in this connection, though the costs can never exceed the deposit in the escrow account established by the parent company Norwegian Energy Company ASA.

The result for the year was in line with the expectations for 2019.

Outlook for 2020

Following the completion of the Acquisition of the interest in the DUC, Noreco has built a stable business that is underpinned by the Company's position in the DUC. Noreco has identified a number of value additive organic DUC investment projects that the Company will seek to sanction when they have sufficiently progressed. The Company's ambition is to more than replace produced volumes with incremental 2P reserves additions over the medium-term.

The Company actively seeks to reduce the risk it is exposed to regarding fluctuating commodity prices through the establishment of hedging arrangements. Noreco has to date executed this policy in the market through a combination of forward contracts and options.

Noreco will continue work to further enhance its reserves and production base and evaluate strategic opportunities.

Research and development

Noreco invests in research and development to support and further grow its E&P activities. The DUC has a partnership with DTU, Technical University of Denmark and has together established the Danish Hydrocarbon Research and Technology Centre (the "DHRTC"). The DHRTC conducts research to improve future production of oil and gas from the Danish North Sea. The Centre's research seeks to increase sustainability through improved cost efficiency and reduced environmental impact. In 2019 the DUC invested DKK 131 million in the DHRTC. Current ongoing work programme includes:

• Improved recovery of hydrocarbons

• Produced water management (zero harmful discharge vision)

• Operations and maintenance technology

• Extended well life

• Robust & cost-effective abandonment for long-term environmental protection

Safety and environment

In 2019, no major accidents or incidents occurred with significant impact on humans or the environment in the period which Noreco Oil Denmark took part as partner in DUC.

Organisational structure

Noreco Oil Denmark A/S is a wholly owned subsidiary of Noreco Denmark A/S. The ultimate parent company Norwegian Energy Company ASA is registered in Norway and listed at the Oslo Børs. For more information about the group please see the website www.noreco.com.

Noreco Oil Denmark A/S is the parent company of the subsidiaries Noreco Petroleum Denmark A/S and Noreco Oil UK Ltd.

Noreco Petroleum Denmark A/S

Noreco Petroleum Denmark holds a 5.000% share in the Lulita Field. The company has no employees.

Noreco Oil UK Ltd.

The company currently holds no licences, however Noreco Oil (UK) Ltd. is actively seeking strategic opportunities.

Recognition and measurement

Tax of net profit is based on the calculated joint taxation of the companies' revenue.

Financial Statements 1 January - 31 December
Income Statement

NOTE	USD 1,000	2019	2018
1	Revenue	280,395	441
2	Production costs	-214,890	373
	Gross profit	**65,506**	**815**
3	Exploration costs	-869	0
	Sales and distribution costs	-23,764	-22
4	Administrative costs	-15,713	-16,138
	Profit (loss) before financial items	**25,160**	**-15,345**
5	Financial income	59,806	6,751
6	Financial costs	-60,247	-14,105
	Profit (loss) before tax	**24,718**	**-22,699**
7	Tax on the profit (loss) for the year	339,810	1,601
	PROFIT (LOSS) FOR THE YEAR	**364,528**	**-21,098**
	Proposal for distribution		
	Retained earnings brought forward	364,528	-21,098
	Proposed dividend	0	0
		364,528	**-21,098**

BALANCE SHEET - ASSETS

NOTE	USD 1,000	2019	2018
	FIXED ASSETS		
	Licence	151,200	0
8	**Intangible fixed assets**	**151,200**	**0**
	Production facilities	1,172,074	460
	Asset under construction	375,663	0
	Operating assets and equipment	42	0
9	**Tangible fixed assets**	**1,547,778**	**460**
10	Investments in subsidiaries	0	0
11	Loans to group entities	73,622	0
12	Deferred tax assets	393,421	0
	Financial fixed assets	**467,043**	**0**
	TOTAL FIXED ASSETS	**2,166,022**	**460**
	CURRENT ASSETS		
	Inventories	**36,489**	**0**
	Trade Receivables	37,972	166
	Receivables from group entities	15,309	7,826
	Corporate tax receivable	1,321	0
13	Derivative instruments	6,107	0
	Prepayments	30,930	6,669
	Receivables	**91,639**	**14,662**
	Cash in hand and at bank	**101,174**	**903**
	TOTAL CURRENT ASSETS	**229,301**	**15,565**
	TOTAL ASSETS	**2,395,323**	**16,025**

BALANCE SHEET - LIABILITIES

NOTE	USD 1,000	2019	2018
	SHAREHOLDERS' EQUITY		
	Share capital	27,040	27,040
	Retained earnings brought forward	244,852	-88,778
14	**TOTAL SHAREHOLDERS' EQUITY**	**271,892**	**-61,738**
	LIABILITIES		
15	Asset retirement obligations	901,486	55,680
	Derivative instruments	19,207	0
	Debts to group entities	958,615	13,288
	Long-term liabilities other than provisions	**1,879,308**	**68,968**
15	Asset retirement obligations	52,196	0
	Trade Payables	101,984	29
	Debts to affiliates	8,851	8,537
	Derivative instruments	30,978	0
	Other debts	50,114	228
	Short-term liabilities	**244,123**	**8,794**
	TOTAL LIABILITIES OTHER THAN PROVISIONS	**2,123,431**	**77,762**
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**2,395,323**	**16,025**

16 Contingent liabilities
17 Related parties

NOTE	USD 1,000	2019	2018
1	**Revenue**		
	Oil	254,509	307
	Gas	25,886	134
	Total	**280,395**	**441**
	By geographical area:		
	Denmark	151,559	441
	North West Europe	128,836	0
	Total	**280,395**	**441**
2	**Production costs**		
	Operating costs	144,965	-435
	Depreciation	69,924	61
	Total	**214,890**	**-373**
3	**Exploration costs**		
	Exploration costs	869	0
	Total	**869**	**0**
4	**Personnel costs and employees**		
	Personnel costs		
	Salaries etc.	2,230	417
	Pension contributions	128	34
	Other social security costs	8	2
	Total	**2,366**	**452**
	Personnel costs are included in the item Administrative costs		
	Number of employees		
	Average for the year	8	1
	By the end of the year	16	1

NOTE	USD 1,000	2019	2018
5	**Financial income**		
	Interest income	733	477
	Interest from group entities	1,005	-132
	Value adjustment derivatives and hedging contracts	53,658	0
	Foreign exchange gains	4,410	6,406
	Total	**59,806**	**6,751**
6	**Financial costs**		
	Interest expenses	15,647	31
	Interest to group entities	28,614	10,780
	Unrealized loss derivatives	11,908	0
	Write down of loans to group	0	69
	Foreign exchange losses	4,078	3,225
	Total	**60,247**	**14,105**
7	**Tax on the result for the year**		
	Danish tax payable	-1,319	-1,565
	Adjustment deferred tax, current year	40,543	0
	Reversal of allowance against deferred tax	-379,034	0
	Adjustment regarding previous years	0	36
	Total	**-339,810**	**-1,529**

8	**Intangible fixed assets**	Licence
	Acquisition cost as at 1 January	0
	Additions during the year	156,000
	Acquisition cost as at 31 December	**156,000**
	Depreciation as at 1 January	4,800
	Depreciation as at 31 December	**4,800**
	Book value as at 31 December	**151,200**
	Depreciation is included in the items below:	
	Production costs	4,800

NOTE	USD 1,000	Production facilities	Asset under construction	Operating assets and equipment
9	**Tangible fixed assets**			
	Acquisition cost as at 1 January	606	0	0
	Additions during the year	1,236,740	375,663	48
	Acquisition cost as at 31 December	**1,237,346**	**375,663**	**48**
	Depreciation as at 1 January	147	0	0
	Depreciation for the year	65,125	0	7
	Depreciation as at 31 December	**65,271**	**0**	**7**
	Book value as at 31 December	**1,172,074**	**375,663**	**42**
	Depreciation is included in the items below:			
	Production costs	65,125		
	Administrative costs	0	0	7

NOTE	USD 1,000	2019	2018
10	**Investments in subsidiaries**		
	Acquisition cost as at 1 January	57,667	57,667
	Acquisition cost as at 31 December	**57,667**	**57,667**
	Value adjustments as at 1 January	-57,667	-57,667
	Value adjustments as at 31 December	**-57,667**	**-57,667**
	Book value as at 31 December	**0**	**0**

Investments in subsidiaries are specified as follows:

Name:	**Address:**	**Share of votes and interest**	**Profit for the year**	**Equity**
Noreco Petroleum Denmark A/S	Copenhagen, Denmark	100%	68,018	60,201
Noreco Oil (UK) Limited	London, England	100%	-1,297	-2,513

NOTE		2019	2018
11	Other financial fixed assets		
	Loans to group entities		
	As at 1 January	0	997
	Changes during the year	73,622	-57,548
	Reversal of write down	0	56,551
	Balance as at 31 December	**73,622**	**0**

NOTE	USD 1,000	2019	2018
12	**Deferred tax**		
	Deferred tax as at 1 January	0	0
	Deferred tax adjustment for the year in the income statement	393,421	0
	Balance as at 31 December	**393,421**	**0**
13	**Derivative instruments**		
	None of the derivative instruments included in current assets expire within 12 months.		
14	**Shareholders' equity**		
	Changes in equity		
	Shareholders' equity as at 1 January	**-61,738**	**-172,632**
	Profit for the year	364,528	-21,098
	Issue of shares	0	131,993
	Value adjustment financial instruments after tax	-30,898	0
	Shareholders' equity as at 31 December	**271,892**	**-61,738**
	In 2018 the share capital was increased by 1,000 shares, at a nominal value of DKK 100. After this the share capital comprise 1,531,000 shares, at a nominal value of DKK 100. Prior to this the share capital has remained unchanged for 5 years.		
	Share capital as at 1 January	27,040	27,025
	Additions during the year	0	15
	Share capital as at 31 December	**27,040**	**27,040**
	Retained earnings		
	Balance as at 1 January	-88,778	-199,657
	Profit for the year	364,528	-21,098
	Share premium related to capital	0	131,977
	Value adjustment financial instruments after tax	-30,898	0
	Balance as at 31 December	**244,852**	**-88,778**
	Shareholders' equity as at 31 December	**271,892**	**-61,738**

NOTE	USD 1,000	2019	2018
15	**Asset retirement obligations**		
	Asset retirement obligations as at 1 January	55,680	58,880
	Addition during the year	882,582	-3,218
	Accretion expense related to asset retirement obligations	15,419	18
	Balance as at 31 December	**953,682**	**55,680**
	Break down of short-term and long-term asset retirement obligations		
	Short-term	52,196	0
	Long-term	901,486	55,680
	Balance as at 31 December	**953,682**	**55,680**

In February 2014, Norwegian Energy Company ASA provided DKK 445 million as security for the future abandonment cost for Nini and Cecilie. The amount is deposited into an escrow account pledged in favor of INEOS and Wintershall Dea Deutschland AG. In connection with Noreco's withdrawal of the Nini and Cecilie licenses in 2015, an agreement was reached with the other partners that Noreco remains obliged to pay for the company's share of the future abandonment cost. However, Noreco's obligation can never exceed the amount deposited in the pledged account. The deposit on pledged account in favor of INEOS and Wintershall Dea Deutschland AG at 31 December 2019, amounted to DKK 431 million corresponding to USD 65 million of which USD 53 million relates to Noreco Oil Denmark A / S.

16 Contingent liabilities

In July 2019, the Noreco Group entered into a committed seven-year senior secured reserve-based credit facility of USD 900 million. The facility is secured against certain cash flows generated by the Group. Further, the shares in Noreco Oil Denmark and Noreco Petroleum Denmark, and the Company's interest in its share of the DUC and insurances contracts, hedging contracts, project accounts, intercompany loans and material contracts have been pledged as collateral for the Noreco Group's loans.

The company is jointly taxed with other Danish group companies. As a group company, the company is indefinitely and jointly and severally liable with other group companies for Danish corporate and withholding taxes on dividends, interest and royalties within the joint taxation. The jointly taxed companies have no debts in this regard at the end of the year December 31, 2019. Any subsequent corrections of joint tax income and withholding tax, etc. could result in liability for the company.

17 Related parties

Noreco Oil Denmark A/S' related parties comprise:

Substantial influence

Noreco Denmark A/S, being principal shareholder.

Noreco Oil Danmark A/S is part of the consolidated financial statements of Norwegian Energy Company ASA, Nedre Vollgate 0158 Oslo, Norway, which is the smallest group in which the Company is included as a subsidiary.

Other related parties

The company's other related parties comprise companies in the Noreco Group, board members, management and leading employees and their family members. Further, related parties comprise companies, in which aforementioned persons have substantial interests.

Notes to the Accounts

Applied accounting policies

The annual report is prepared in accordance with the provisions of the Danish Financial Statements Act regarding companies under accounting class B, including selected rules under accounting class C.

The applied accounting policies are the same as last year.

According to the Danish Financial Statements Act’s §112, subsection 1, no consolidated account is to be prepared. The annual reports of Noreco Oil Denmark A/S and its subsidiaries are included in the consolidated accounts for Noreco ASA.

Recognition and measurement

Revenue is recognised in the income statement as it is earned. In addition, value adjustments are recognised for financial assets and liabilities measured at fair value or amortized cost. All expenses incurred to achieve the year's earnings are recognised in the income statement, including depreciations, write-downs and provisions, and reversals as a result of changed accounting estimates of amounts previously recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to the company and the value of the asset can be reliably measured.

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will derive from the company and the value of the liability can be measured reliably.

At initial recognition, assets and liabilities are measured at cost. Subsequently, assets and liabilities are measured as described for each accounting item below.

Foreign currency translation

The annual report is presented in USD, which is the functional currency of the company. The following exchange rates have been used: as of 31 December 2019 0.149793 USD/DKK; and as of 31 December 2018: 0,153389 USD/DKK

Foreign currency transactions are translated applying the exchange rate at the transaction date. Exchange rate differences arising between the exchange rate at the transaction date and the rate at the payment date are recognised in the income statement as a financial item. If currency positions are considered to hedge future cash flows, value adjustments are recognised directly in equity.

Receivables, debt and other monetary items in foreign currencies not settled at the balance sheet date are measured at the exchange rate at the balance sheet date. The difference between the exchange rate at the balance sheet date and the exchange rate at the time the receivable or debt arises is recognised in the income statement under financial income and expenses.

Fixed assets purchased in foreign currency are measured at the exchange rate on the transaction date.

Notes to the Accounts (continued)

Applied accounting principles

BUSINESS COMBINATIONS
When acquiring new activity, the purchase method is applied under which identifiable assets and liabilities are measured at fair value at the date of acquisition. Restructuring costs recognised in the acquirer at the acquisition date that are not a part of the acquisition are included in the pre-acquisition balance sheet and thus the determination of goodwill. Restructuring that is adopted after the acquisition is recognised in the income statement. The tax effect of revaluations is recognised as deferred tax.

Restructuring provisions, are recognised as intangible assets and amortised systematically in the income statement based on an individual assessment of the useful life.

Newly acquired or newly established activity is recognised in the consolidated financial statements at the date of acquisition or establishment.

Income Statement

REVENUE
Revenue is recognized when the customer obtains control of the hydrocarbons, which is ordinarily at the point of delivery (lifting and sales) when title passes (sales method).

PRODUCTION COSTS
Production costs are costs that are directly attached to production of hydrocarbons, e.g. costs for operating and maintaining production facilities and installations. Costs mainly consist of man-hours, insurance, processing costs, environmental fees, transport costs etc. Further, production costs includes depreciation of production facilities.

EXPLORATION COSTS
Exploration costs include the year's costs related to exploration activities and write-downs on dry wells.

SALES AND DISTRIBUTION COSTS
Sales and distribution costs include costs in connection with transport and sale of oil and gas.

ADMINISTRATION COSTS
Administration costs comprise salaries, office costs and depreciations etc.

FINANCIAL ITEMS
Financial income and expenses include interest rates, realized and unrealized exchange rate adjustments and amortization of financial liabilities.

TAX ON PROFIT FOR THE YEAR
Tax on profit for the year consists of the current tax and offset in deferred tax for the year and is recognised in the income statement with the portion attributable to the profit for the year and directly on equity with the portion attributable to entries directly on equity.
The tax has been calculated considering that Noreco Oil Denmark A/S has opted out of international joint taxation. The tax value of investments and profit in foreign permanent establishments is not capitalized.

The company is jointly taxed with Noreco Olie- og Gasudvinding Danmark B.V., Noreco Petroleum Denmark A/S, Noreco DK Pipeline ApS and Noreco Denmark A/S.

Notes to the Accounts (continued)

Applied accounting principles

Balance Sheet

INTANGIBLE FIXED ASSETS
The group applies the successful efforts method of accounting for oil and gas exploration expenditures. Expenditures to acquire interests in oil and gas properties and to drill and equip exploratory wells are capitalised as exploration expenditures within intangible assets until the well is complete and the results have been evaluated, or there is any other indicator of a potential impairment. Exploration wells that discover potentially economic quantities of oil and natural gas remain capitalised as intangible assets during the evaluation phase of the discovery. This evaluation is normally finalised within one year. If, following the evaluation, the exploratory well has not found potentially commercial quantities of hydrocarbons, the capitalised expenditures are evaluated for derecognition or tested for impairment. Geological and geophysical expenditures and other exploration and evaluation expenditures are expensed as incurred.

Capitalised exploration expenditures, including expenditures to acquire interests in oil and gas properties, related to wells that find proved reserves are transferred from exploration expenditures (intangible assets) to tangible fixed assets at the time of sanctioning of the development project.

TANGIBLE FIXED ASSETS
Tangible fixed assets include production facilities, machinery and equipment. Items of property, plant and equipment are measured at cost, less accumulated depreciation and accumulated impairment losses. Cost includes purchase price or construction cost and any costs directly attributable to bringing the assets to a working condition for their intended use, including capitalised borrowing expenses incurred up until the time the asset is ready to be put into operation. Production plants are depreciated from the start of production according to the Unit of Production method based on produced and expected recoverable amounts of oil.

For tangible fixed assets where asset retirement obligations for decommissioning and dismantling are recognised as a liability, this value is added to acquisition cost for the respective assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in the income statement using the effective interest method.

When parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items (major components) of tangible fixed assets and depreciated separately.

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Gain or loss from sale of tangible fixed assets, which is calculated as the difference between the sales consideration and the carrying amount, is reported in the income statement under other (losses)/gains.

Expenses related to drilling and equipment for exploration wells where proven and probable reserves are discovered are capitalised and depreciated using the unit-of-production (UoP) method based on the proven and probable reserves expected to be produced from the well. Development cost related to construction, installation and completion of infrastructural facilities such as platforms, pipelines and drilling of production wells, are capitalised as producing oil and gas fields. They are depreciated using the unit-of production method based on the proven and probable developed reserves expected to be recovered from the area for the economic lifetime of the field. For fields where the oil share of the reserves constitutes the most significant part of the value, the capitalised cost is depreciated based on produced barrels of oil. This generally gives a more systematic allocation of depreciation expenses over the useful life than using all produced oil equivalents. If realisation of the probable reserves demands further future investments, these are added to the basis of depreciation.

Notes to the Accounts (continued)

Applied accounting principles

Acquired assets used for extraction and production of petroleum deposits, including licence rights, are depreciated using the unit-of-production method based on proven and probable reserves.

Historical cost price for other assets is depreciated over the estimated useful economic life of the asset, using the straight-line method.

The estimated useful lives are as follows:
- Office equipment and fixtures: 3-5 years

Depreciation methods, useful lives, residual values and reserves are reviewed at each reporting date and adjusted if appropriate.

INVESTMENTS IN SUBSIDIARIES
Investments in subsidiaries are measured in the parent company at cost. An impairment test is performed of each asset or group of assets, respectively, if there is an indication of impairment. When the cost exceeds the recoverable amount, write-down is made to the lower value.

IMPAIRMENT OF ASSETS
The carrying amount of intangible and tangible assets is assessed annually for impairment, in addition to what is expressed by depreciation. If there are indications of impairment, an impairment test is performed for each asset or group of assets. Write-down is made to the recoverable amount if it is lower than the carrying amount. The recoverable amount is the highest value of the net selling price and capital value. The capital value is calculated as the present value of expected net cash flows from the use of the asset or group of assets and expected net cash flows from the sale of the asset or group of assets after the end of useful life.

RECEIVABLES
Receivables are measured at amortized cost or a lower net realizable value, which is normally nominal value less write-downs to meet any expected losses.

Prepayments and debt to operators are measured as the difference between paid cash calls and costs incurred according to the operator accounts for the individual licenses.

Prepayments, recognised under assets, include costs paid for subsequent financial years and are measured at cost. The item also includes recognised underlifting of crude oil, which is measured at realizable value. As the producing fields have more participants, situations may arise where a participant has lifted and sold more/less oil than the participant is relatively entitled to at the time of the lift. Such a situation is termed overlift and underlift respectively. Crude oil lifting is recognised under current liabilities under other debt.

DIVIDEND
Proposed dividends are recognised as a liability at the time of adoption at the Annual General Meeting (the date of declaration). Dividends expected to be paid out for the year are shown as a separate item under equity.

CORPORATE AND DEFERRED TAX
Current tax liabilities and receivables are recognised in the balance sheet as calculated tax on the taxable income for the year, adjusted for prepaid tax.

Deferred tax is measured using the balance sheet debt method of all temporary differences between the carrying amount and the tax value of assets and liabilities

Notes to the Accounts (continued)

Applied accounting principles

Deferred tax assets, including the tax value of tax loss carry forwards, are recognised at the value at which they are expected to be used. Changes in deferred tax due to changes in tax rates are recognised in the income statement.

ASSET RETIREMENT OBLIGATIONS
Provisions reflect the estimated cost of decommissioning and removal of wells and production facilities used for the production of hydrocarbons. Asset retirement obligations are measured at net present value of the anticipated future cost (estimated based on current day costs inflated). The liability is calculated on the basis of current removal requirements and is discounted to present value using a risk free rate adjusted for credit risk. Liabilities are recognised when they arise and are adjusted continually in accordance with changes in requirements, price levels etc. When a decommissioning liability is recognised or the estimate changes, a corresponding amount is recorded to increase or decrease the related asset and is depreciated in line with the asset. Increase in the provision as a result of the time value of money is recognised in the income statement as a financial expense. If abandonment cost through agreements with partners have been limited to a given amount, this then forms the basis for the recognized liability.

LIABILITIES
Liabilities including debt to suppliers and group entities, as well as other debt, are measured at amortised cost, which usually corresponds to nominal value.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES
Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company uses derivative financial instruments, such as forward commodity contracts and options, to reduce the exposure to commodity price volatility. Effective from 1 October 2019 the Company has elected to apply cash flow hedge accounting designating these derivatives. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and from the date of start of cash flow hedge accounting. These are subsequently remeasured at fair value and the effective portion of the gain or loss on the hedging instrument is recognised in Shareholders' equity, while any ineffective portion is recognised immediately in profit or loss (financial income or financial expenses). The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item. The amount accumulated in Shareholders’ equity is reclassified to profit or loss as a reclassification adjustment in the same periods during which the hedged cash flows affect profit or loss. If cash flow hedge accounting is discontinued, the amount that has been accumulated in Shareholders’ equity must remain in accumulated Shareholders’ equity if the hedged future cash flows are still expected to occur. Otherwise the amount will be immediately reclassified to profit or loss as a reclassification adjustment. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

"By my signature I confirm all dates and content in this document."

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