

# **INTERIM REPORT**

for the second quarter 2019



**north**  
energy

## Quarterly highlights

**Potential tax claim from the years 2014-2015.** North E&P received in October 2018 a notice from the Oil Taxation Office (OTO) of possible changes of the Company's tax returns from the years 2014 and 2015. For these two years North Energy's total expenses eligible for refund amounted to NOK 970 million. The OTO has in the notice challenged NOK 146 million of these expenses, with a corresponding exploration tax refund of around NOK 114 million. In the response submitted to OTO, North Energy strongly disputes both the content and the conclusion of the notice. The Company has, however, taken necessary measures to ensure sufficient financial cover of a potential future tax claim. The Company continues to follow up the claim with OTO while awaiting a response. There is currently no indication from OTO of the outcome of the potential claim.

**Simplification of the corporate structure.** In April, Accello Partners AS was liquidated, and the liquidation proceed of NOK 95.3 million has been paid to the shareholders with NOK 84.7 million to North Energy Capital AS (NEC) and NOK 10.6 million to minority interests.

The subsidiary North Energy Norge AS has been moved from (NEC) to the holding company North Energy ASA, thereby reducing the minority interest in the subsidiary.

Following these restructuring moves, and the transactions carried out last quarter, all investment activities are from the second quarter carried out by the parent company, while NEC remains as a holding vehicle for North E&P with NOK 120 million invested in low risk bond funds. North Energy has an 80% economic interest in NEC.

**Dividend to shareholders.** In May the AGM approved the Board's proposal for dividend, where the shareholders had the option to choose between cash dividend or dividend as new shares. In June the Company distributed a dividend of NOK 0.3 per share to shareholders, amounting to a total distribution of NOK 32.9 million. The dividend was distributed using NOK 20.6 million in cash and 7.7 million treasury shares based on a price of NOK 1.6 per share.

## Key figures

NOK mln	Q2 2019	Q2 2018	Year 2018
Operating profit	-4.4	18.2	-35.2
Profit/loss after tax	-8.4	18.3	-35.0
Investments	274.6	153.0	142.7
Total assets	315.3	450.3	389.5
Equity ratio (%)	98 %	92 %	99 %
Debt	0	34.2	0

## Financial information

The consolidated financial statements encompass North Energy ASA, North Energy Capital AS, North E&P AS, and North Energy Norge AS.

North Energy recorded a comprehensive loss of NOK 8.4 million in the second quarter of 2019, compared with a comprehensive income of NOK 18.3 million in the corresponding quarter of 2018.

The loss reported this quarter is mainly driven by operating expenses of NOK 6.0 million, offset by revenues of NOK 0.9 million and net gain of NOK 0.7 million from the investment activities. Last year's figures were impacted by the significant increase in



market values of investments leading to a gain on financial investments.

Payroll and related expenses in the second quarter were NOK 0.9 million compared to NOK 1.3 million in the same quarter last year. The decrease in payroll expenses is mainly due to a reduced number of employees. At the end of the second quarter 2019, there were 3 employees in the Group, down from a staff of 5 at the end of second quarter 2018.

At the end of the quarter, total investments amounted to NOK 274.6 million, compared to NOK 153.0 million at the end of second quarter 2018 and NOK 277.1 million last quarter. The increase in investments compared to last year is mainly due to new investments in bond funds of NOK 120 million and new investments in various shares of NOK 19 million.

The investment in Reach Subsea ASA (Reach) is accounted for as an associated company. North Energy thereby consolidates its share of the net result from Reach. From the day of acquisition to the end of the first quarter this year, the net consolidated result amounts to a loss of NOK 16.1 million. The publishing of this quarter's result for North Energy is earlier than the publishing of Reach's figures, hence, the Company's interim report does not include figures from Reach for the second quarter 2019.

The share price of Reach ended the quarter at NOK 2.15, which gives North Energy's share a market value of NOK 99.2 million.

In addition to Reach, the Company also reports its 50% share of Tyveholmen AS as an associated company in the balance sheet.

Net financial items in the second quarter were an income of NOK 0.1 million. The financial income is explained by interest income on bank accounts and bonds.

Total assets at the end of the first quarter were NOK 315.3 million, down from NOK 389.5 million at the end of last year.

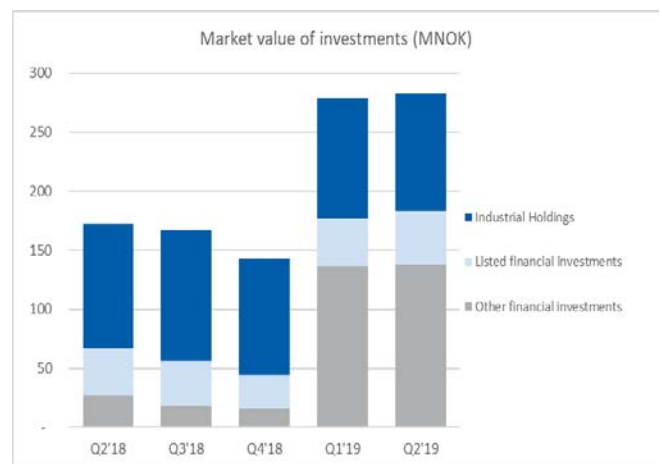
Total equity at the end of the second quarter 2019 was NOK 307.6 million, down from NOK 385.0 million at the end of last year. The decrease is mainly explained by dividend given to shareholders of NOK 20.6, the purchase of treasury shares of NOK 18 million, dividend of NOK 17 million paid from subsidiary to minority

shareholders, liquidation proceeds of NOK 10.6 million paid to minority shareholders, and total comprehensive loss of NOK 11.2 million recorded year to date in 2019. The Company's equity ratio stood at 98 percent at the end of the second quarter.

The Company has no interest-bearing debt as both the exploration facility as well as the bank overdraft were paid down in full during fourth quarter 2018.

North Energy recorded NOK 33.8 million in cash and cash equivalents at the end of the second quarter. The decrease in cash of NOK 31.9 million from last quarter is mainly due to the dividend paid to shareholders of NOK 20.6 million, liquidation proceed paid to minority interests of NOK 10.6 million.

The Board regards the Company's financial position as satisfactory.



## Industrial holdings

### Reach Subsea ASA

North Energy's main industrial investment is its shareholding in Reach, accounted at NOK 91.4 million, down from NOK 101.9 million last quarter. The decrease is due to dividend received of NOK 3.2 million as well as the Company's share of the negative result from the first quarter 2019 amounting to NOK 5.7 million. The consolidated net loss of NOK 16.1 million includes the period from acquisition up until the end of the first quarter 2018. Due to timing of the publishing of this interim report the result from Reach for second quarter has not been consolidated. The market value of the investment in Reach was NOK 99.2 million at the end of the quarter.

The annual general meeting in Reach held on 27<sup>th</sup> of May 2019 approved the dividend proposal from the Board of NOK 0.07 per share, which represent around 50% of the adjusted net result for 2018. This is in line with the dividend policy for the company. The dividend was paid to shareholders in June

The investment in Reach is in line with North Energy's strategy to focus on strategic opportunities where substantial influence can be exercised. The company is listed on the Oslo Stock Exchange and as of the end of second quarter 2019, the company had a market capitalization of NOK 308.6 million.

## Financial investments

The Company has an investment in Touchstone Exploration representing 11.55 per cent of the total number of shares in the company.

Touchstone Exploration spudded 7 August the Coho-1 exploration well which is targeting gas in the Herrera formation in the Ortoire block.

This well is the first of four exploration wells to be drilled by the company and the result is expected in the third quarter 2019.

Sales for the second quarter were 1,768 barrels a day on average, a drop of 17 percent compared to first-quarter production at 2,121 barrels a day. However, the production represents a 3 percent year on year increase compared to the second quarter last year.

North Energy is actively managing the portfolio of financial investments. Total market value of the investment portfolio was NOK 282.3 million at the end of the year.

## Outlook

Going forward, we expect that the main investments will continue to be within energy and oil services, but a wider range of business segments will also be evaluated.



# Report for the first half 2019

## Highlights

In May the AGM approved the Board's proposal for dividend, where the shareholders had the option to choose between cash dividend or dividend as new shares. In June the Company distributed a dividend of NOK 0.3 per share to shareholders, amounting to a total distribution of NOK 32.9 million. The dividend was distributed using NOK 20.6 million in cash and 7.7 million treasury shares.

North E&P received in October 2018 a notice from the Oil Taxation Office (OTO) of possible changes of the Company's tax returns from the years 2014 and 2015. For these two years North Energy's total expenses eligible for refund amounted to NOK 970 million. The OTO has in the notice challenged NOK 146 million of these expenses, with a corresponding exploration tax refund of around NOK 114 million. In the response submitted to OTO, North Energy strongly disputes both the content and the conclusion of the notice. The Company has, however, taken necessary measures to ensure sufficient financial cover of a potential future tax claim. The Company continues to follow up the claim with OTO while awaiting a response. There is currently no indication from OTO of the outcome of the potential claim.

In line with the Board's resolution from last year to simplify the corporate structure, the subsidiary Accello Partner AS has been liquidated and the liquidation proceed of NOK 95.3 million has been paid to the shareholders with NOK 84.7 million to North Energy Capital AS (NEC) and NOK 10.6 million to minority interests. Further, the subsidiary North Energy Norge AS has been moved from (NEC) to the holding company North Energy ASA, thereby reducing the minority interest in the subsidiary. Following these restructuring moves, and the transactions carried out last quarter, all investment activities are from the second quarter carried out by the parent company, while NEC remains as a holding vehicle for North E&P with NOK 120 million invested in low risk bond funds. North Energy has an 80% economic interest in NEC.

North Energy's investment portfolio continues to grow and has at the end of June 2019 a market value of 282.3 million. The Company's main investment is a 32.1 per cent ownership in Reach Subsea with a market value of NOK 99.2 million.

## Financial

As per first half 2019, North Energy reported a net loss after tax of NOK 11.2 million compared to a loss in the first half of 2018 of NOK 7.0 million. The loss this year derives mainly from operating expenses of NOK 12.3 million and a loss of NOK 5.7 million from associated company. This is partly offset by positive change in fair value of financial investments with NOK 8.3 million. The loss last year was derived by operating expenses of NOK 12.6 million, a loss of NOK 3.0 million from associated company, partly offset by gain from financial investment of NOK 9.0 million.

Payroll and related expenses were NOK 2.2 million in first half of 2019, a reduction of NOK 1.0 million compared to the corresponding period in 2018. The number of staffs have been reduced from 5 in 2018 to 3 in 2019. Other operating expenses were NOK 9.2 million in first half of this year, which is at the same level as last year.

As per 30 June 2019, North Energy reported total assets of NOK 315.3 million. This includes financial investments of NOK 274.6 million as well as cash of NOK 33.8 million. The assets are financed by 98 per cent equity. The company has no interest-bearing debt at the end of the second quarter.

North Energy recorded NOK 33.8 million in cash and cash equivalents at the end of the second quarter. This is down from NOK 248.4 million at the beginning of the year. The reduction is explained by cash being used on new investments of NOK 139.0 million, share buyback of NOK 18.0 million, dividend to shareholders of NOK 20.6 million, dividend from subsidiary to minority owner of NOK 17.0 million, liquidation proceed to minority owner of NOK 10.6 million, cash burn of NOK 15.0 million, offset by various income of NOK 5.5 million.

## Risk assessment

North Energy's financial risk management is intended to ensure that risks of significance for the Company's goals are identified, analyzed and managed in a systematic and cost-efficient manner. The Company is exposed to financial risk in various areas, as described below.

Monitoring of risk exposure and assessment of the need to deploy financial instruments are pursued continuously.

**Operational risk.** North Energy is an enterprise where operational risk is closely related to its expertise. The Company therefore devotes attention to developing its expertise and organisation, and to its management systems.

**Market risk.** With a growing investment portfolio, North Energy is exposed to market risk involving the risk of changing conditions in the specific marketplace in which the Company makes investments. Sources of market risk include changes in market sentiment as well as recessions, political turmoil, changes in interest rates, natural disasters and terrorist attacks.

**Liquidity risk.** The Group's ongoing financing needs are forecasted on a continuous basis, and the level of activity is tailored to liquidity. The Company's primary source of funding has traditionally been equity.

**Interest rate risk.** The Company is currently not materially exposed to interest rate changes as it is fully financed through equity. However, fluctuations in interest rates may affect investment opportunities in the future.

**Credit risk.** The risk of bad debts is considered very low, since the Company's total outstanding receivables is at a very low level.

**Foreign exchange.** The foreign exchange risk is low as the Company now has limited amounts and less transactions in foreign currencies compared to the past. North Energy continuously evaluates currency hedges for costs in foreign currencies where the payment dates are known.

# Financial statements second quarter 2019

## CONSOLIDATED INCOME STATEMENT

NOK 1 000	Note	Q2 2019 (unaudited)	Q2 2018 (unaudited)	YTD Q2 2019 (unaudited)	YTD Q2 2018 (unaudited)	Year 2018 (audited)
Sales		883	0	883	0	0
Payroll and related expenses		( 863)	(1 326)	(2 183)	(3 226)	(6 034)
Depreciation and amortisation		( 443)	( 11)	(887)	( 34)	( 52)
Other operating expenses		(4 733)	(4 409)	(9 230)	(9 312)	(18 609)
Change in fair value of financial investments		6 432	22 555	8 301	8 959	(8 054)
Net result from investments in associates	11	(5 713)	1 374	(5 713)	(3 004)	(2 466)
<b>Operating profit/(loss)</b>		<b>(4 437)</b>	<b>18 182</b>	<b>(8 829)</b>	<b>(6 618)</b>	<b>(35 215)</b>
Financial income		137	546	1 019	1 173	3 024
Financial costs		( 74)	( 430)	( 400)	(1 834)	(5 529)
<b>Net financial items</b>		<b>64</b>	<b>115</b>	<b>619</b>	<b>( 662)</b>	<b>(2 504)</b>
<b>Profit/(loss) before income tax</b>		<b>(4 374)</b>	<b>18 297</b>	<b>(8 210)</b>	<b>(7 280)</b>	<b>(37 719)</b>
Income taxes	8	(4 004)	2	(3 015)	256	2 726
<b>Profit/(loss) for the period</b>		<b>(8 377)</b>	<b>18 298</b>	<b>(11 225)</b>	<b>(7 023)</b>	<b>(34 993)</b>
Attributable to:						
Owners of North Energy ASA		(7 546)	14 583	(10 237)	(5 798)	(28 906)
Non-controlling interests		( 832)	3 716	( 987)	(1 225)	(6 087)
Earnings per share (NOK per share)						
- Basic		(0,07)	0,12	(0,09)	(0,05)	(0,24)
- Diluted		(0,07)	0,12	(0,09)	(0,05)	(0,24)

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

<b>Profit/(loss) for the period</b>	<b>(8 377)</b>	<b>18 298</b>	<b>(11 225)</b>	<b>(7 023)</b>	<b>(34 993)</b>
Other comprehensive income, net of tax					
<b>Total other comprehensive income, net of tax</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total comprehensive income/(loss) for the period</b>	<b>(8 377)</b>	<b>18 298</b>	<b>(11 225)</b>	<b>(7 023)</b>	<b>(34 993)</b>
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	<b>(8 377)</b>	<b>18 298</b>	<b>(11 225)</b>	<b>(7 023)</b>	<b>(34 993)</b>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

NOK 1 000	Note	30.06.2019 (unaudited)	30.06.2018 (unaudited)	31.12.2018 (audited)
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment		27	0	83
Right-of-use assets	3	4 586	0	0
Other receivables		468	11 663	1 916
Financial investments	9	-	52 822	30 089
Investments in associates	11	98 482	86 316	98 453
Deferred tax asset	8	0	0	2 530
<b>Total non-current assets</b>		<b>103 563</b>	<b>150 800</b>	<b>133 070</b>
<b>Current assets</b>				
Trade and other receivables		1 741	6 433	678
Financial investments, current	9	176 125	0	7 330
Tax receivable, refund tax value exploration expenses	8	0	32 691	0
Tax receivable, refund tax value offshore tax losses	8	0	200 701	0
Cash and cash equivalents		33 824	59 684	248 441
<b>Total current assets</b>		<b>211 691</b>	<b>299 510</b>	<b>256 449</b>
<b>Total assets</b>		<b>315 254</b>	<b>450 310</b>	<b>389 519</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>				
Share capital	5	119 047	119 047	119 047
Treasury shares	5	(3 411)	0	0
Share premium		903 141	936 010	936 010
Other paid-in capital		30 691	30 691	30 691
Retained earnings		(726 894)	(686 119)	(709 227)
Non-controlling interests		(14 993)	13 337	8 476
<b>Total equity</b>		<b>307 581</b>	<b>412 967</b>	<b>384 997</b>
<b>Liabilities</b>				
<b>Non-current liabilities</b>				
Deferred tax liability	8	366	0	0
Leasing liabilities	3	2 842	0	0
<b>Total non-current liabilities</b>		<b>3 208</b>	<b>0</b>	<b>0</b>
<b>Current liabilities</b>				
Current borrowings, exploration loan		(0)	15 017	(0)
Current borrowings, bank overdraft		0	19 182	0
Leasing liabilities, current	3	1 805	0	0
Trade creditors		386	1 182	2 841
Tax payable	8	118	102	0
Other current liabilities		2 157	1 861	1 681
<b>Total current liabilities</b>		<b>4 465</b>	<b>37 343</b>	<b>4 522</b>
<b>Total liabilities</b>		<b>7 673</b>	<b>37 343</b>	<b>4 522</b>
<b>Total equity and liabilities</b>		<b>315 254</b>	<b>450 310</b>	<b>389 519</b>



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOK 1 000	Share capital	Treasury Shares	Share premium	Other paid-in capital	Retained earnings	Non-controlling interests	Total equity
Equity at 1 January 2018	119 047	0	936 010	30 691	(680 321)	14 562	419 990
Total comprehensive income for 01.01.18-30.06.18					(5 798)	(1 225)	(7 023)
<b>Equity at 30 June 2018</b>	<b>119 047</b>	<b>0</b>	<b>936 010</b>	<b>30 691</b>	<b>(686 119)</b>	<b>13 337</b>	<b>412 967</b>
Total comprehensive income for 01.07.18-31.12.18					(23 108)	(4 862)	(27 970)
<b>Equity at 31 December 2018</b>	<b>119 047</b>	<b>0</b>	<b>936 010</b>	<b>30 691</b>	<b>(709 227)</b>	<b>8 476</b>	<b>384 997</b>
Acquired treasury shares		(18 020)					(18 020)
Paid dividend from North Energy ASA		14 608	(32 869)		(2 307)		(20 567)
Paid dividend from subsidiary to non-controlling interests						(17 000)	(17 000)
Paid dividend from liquidated subsidiary to non-controlling interests						(10 605)	(10 605)
Change in non-controlling interests					(5 123)	5 123	0
Total comprehensive income for 01.01.19-30.06.19					(10 237)	( 987)	(11 225)
<b>Equity at 30 June 2019</b>	<b>119 047</b>	<b>(3 411)</b>	<b>903 141</b>	<b>30 691</b>	<b>(726 894)</b>	<b>(14 993)</b>	<b>307 581</b>

## CONSOLIDATED CASH FLOW STATEMENT

NOK 1 000	Q2 2019 (unaudited)	Q2 2018 (unaudited)	YTD Q2 2019 (unaudited)	YTD Q2 2018 (unaudited)	Year 2018 (audited)
<b>Cash flow from operating activities</b>					
Profit/(loss) before income tax	(4 374)	18 297	(8 210)	(7 280)	(37 719)
Adjustments:					
Tax refunded/paid	0	0	0	0	233 227
Depreciation	443	11	887	34	52
Pensions	15	0	30	0	47
Transaction costs and interest on borrowings recognised in P&L	0	355	0	720	1 417
Change in fair value of financial investments	(6 432)	(22 555)	(8 301)	(8 959)	8 054
Net result from investments in associates	5 713	(1 374)	5 713	3 004	2 466
Changes in current payables, receivables and other accruals	( 715)	(2 179)	(3 814)	(5 150)	456
<b>Net cash flow from operating activities</b>	<b>(5 348)</b>	<b>(7 445)</b>	<b>(13 695)</b>	<b>(17 631)</b>	<b>208 000</b>
<b>Cash flow from investing activities</b>					
Purchase of property, plant and equipment	0	( 0)	0	0	( 92)
Proceeds from sales of property, plant and equipment	0	0	0	0	677
Investments in associates	0	0	(8 971)	0	(11 599)
Dividends from associates	3 229	0	3 229	0	0
Purchase of financial investments	0	(1 103)	(130 435)	(21 318)	(25 032)
Proceeds from sales of financial investments	15	23 384	30	34 521	36 626
Proceeds/payments from other non-current receivables	1 417	0	1 417	0	10 541
<b>Net cash flow from investing activities</b>	<b>4 662</b>	<b>22 281</b>	<b>(134 730)</b>	<b>13 203</b>	<b>11 120</b>
<b>Cash flow from financing activities</b>					
Repayments of borrowings	0	(1 000)	0	(1 000)	(35 579)
Transaction costs and interest on borrowings paid	0	( 89)	0	( 200)	( 412)
Dividends paid from North Energy ASA	(20 567)	0	(20 567)	0	0
Dividends paid from subsidiary to non-controlling interests	0	0	(17 000)	0	0
Dividends paid from liquidated subsidiary to non-controlling interests	(10 605)	0	(10 605)	0	0
Purchase of treasury shares	0	0	(18 020)	0	0
Net proceeds from share issues	0	0	0	0	0
<b>Net cash flow from financing activities</b>	<b>(31 172)</b>	<b>(1 089)</b>	<b>(66 192)</b>	<b>(1 200)</b>	<b>(35 991)</b>
<b>Net change in cash and cash equivalents</b>	<b>(31 858)</b>	<b>13 747</b>	<b>(214 617)</b>	<b>(5 628)</b>	<b>183 129</b>
Cash and cash equivalents at beginning of the period	65 683	45 938	248 441	65 312	65 312
<b>Cash and cash equivalents at end of the period</b>	<b>33 824</b>	<b>59 684</b>	<b>33 824</b>	<b>59 684</b>	<b>248 441</b>

# Notes to the interim consolidated financial statements second quarter 2019

## Note 1 - General and corporate information

These financial statements are the unaudited interim condensed consolidated financial statements of North Energy ASA and its subsidiaries (hereafter "the Group") for the second quarter of 2019. North Energy ASA is a public limited company incorporated and domiciled in Norway, with its main office located in Oslo. North Energy ASA's shares were listed on Oslo Axess, an exchange regulated by the Oslo Stock Exchange, on 5 February 2010. The company's ticker is NORTH.

## Note 2 - Basis of preparation

The interim accounts have been prepared in accordance with IAS 34 Interim Financial Reporting and the supplementary requirements in the Norwegian Securities Trading Act (Verdipapirhandelloven). The interim accounts do not include all the information required in the annual accounts and should therefore be read in conjunction with the annual accounts for 2018. The annual accounts for 2018 were prepared in accordance with the EU's approved IFRS.

## Note 3 - Accounting policies

The accounting policies adopted in the preparation of the interim accounts are consistent with those followed in the preparation of the annual accounts for 2018. In addition, the Group has adopted the IFRS 16 Leases effective from 1 January 2019.

IFRS 16: The implementation of IFRS 16 resulted in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The Group adopted the standard using the modified retrospective approach. The implementation had no impact on net equity and resulted in an increase of NOK 5.4 million in property, plant and equipment with a corresponding increase in liabilities, of which NOK 3.6 million is classified as non-current liabilities and NOK 1.8 million is classified as current liabilities. The Group's leasing portfolio consists of leased office space.

## Note 4 - Critical accounting estimates and judgements

The preparation of the interim accounts entails the use of judgements, estimates and assumptions that affect the application of accounting policies and the amounts recognised as assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are considered to be reasonable under the circumstances. The actual results may deviate from these estimates. The material assessments underlying the application of the company's accounting policies and the main sources of uncertainty are the same for the interim accounts as for the annual accounts for 2018.

## Note 5 - Share capital

Number of outstanding shares at 1 January 2019	119 047 065
New shares issued during the period	0
<b>Number of outstanding shares at 30 June 2019 *</b>	<b>119 047 065</b>
Nominal value NOK per share at 30 June 2019	1
Share capital NOK at 30 June 2019	119 047 065

\* Inclusive 1,795,472 treasury shares. North Energy ASA has in March 2019 purchased 9,484,038 own shares at a price of NOK 1.9 per share, and in June 7,688,566 of these shares were paid as dividend. Own equity instruments which are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration is recognised in equity.

North Energy ASA has in June 2019 paid a dividend of NOK 0.30 per share. The dividend was paid in cash with NOK 20.6 million together with 7,688,566 dividend shares at NOK 1.6 per share.

## Note 6 - Business segments

The Group reports only one business segment which, after the discontinued exploration activities, only includes the investment activities.

## Note 7 - Related parties

The company's transactions with related parties:

Purchase of services from	Description of services	YTD Q2 2019	YTD Q2 2018	Year 2018
North Advisors AS	Consultancy services	4 409	4 104	8 142

## Note 8 - Income taxes

North E&P AS ("Company") received on 23rd October 2018 a notice from the Petroleum Taxation Office ("OTO") of possible changes of the Company's tax returns from the years 2014 and 2015. For these two years North Energy's total expenses eligible for refund amounted to NOK 970 million. OTO has in the notice challenged NOK 146 million of these expenses, with a corresponding exploration tax refund of NOK 114.2 million. In the notice, OTO claims that North Energy have incurred this cost to take advantage of the refund system and not for adequate operational reasons. North Energy strongly disputes both the content and the conclusion of the notice. The Company's judgement is that it is more likely than not that OTO will waive the potential claim. However, the Board of North E&P has taken necessary measures to ensure sufficient financial cover of the potential tax claim.

Specification of income tax	YTD Q2 2019	YTD Q2 2018	Year 2018
Tax payable	(118)	(102)	0
Change deferred tax asset	(2 897)	358	2 726
Of this, deferred tax asset related to equity transactions recognised directly in equity	0	0	0
<b>Total income tax credit</b>	<b>(3 015)</b>	<b>256</b>	<b>2 726</b>

Specification of tax receivable, refund tax value exploration expenses	30.06.2019	30.06.2018	31.12.2018
Calculated refund tax value of exploration costs previous year	0	32 691	0
Correction refund previous years, not yet assessed	0	0	0
<b>Total tax receivable, refund tax value exploration expenses</b>	<b>0</b>	<b>32 691</b>	<b>0</b>

<b>Specification of temporary differences, tax losses carried forward, deferred tax asset and tax receivable from refund tax value offshore tax losses</b>	<b>30.06.2019</b>	<b>30.06.2018</b>	<b>31.12.2018</b>
Property, plant and equipment	4 210	230	( 423)
Pensions	540	625	570
Prepayments and other receivables	(2 076)	( 87)	(2 076)
Leasing liabilities	(4 646)	0	0
Financial investments	14 052	3 271	8 782
Tax losses carried forward, onshore	(67 162)	(49 281)	(58 359)
Tax losses carried forward, offshore 22%	0	(228 258)	(2 756)
Tax losses carried forward, offshore 56%	0	( 960)	(3 436)
Tax losses carried forward, offshore both 24% and 54% basis	0	(186 411)	0
<b>Total basis for deferred tax asset</b>	<b>(55 082)</b>	<b>(460 870)</b>	<b>(57 698)</b>
Deferred tax asset before valuation allowance	12 118	211 106	13 862
Not capitalised deferred tax asset (valuation allowance)	(12 484)	(10 406)	(11 331)
<b>Deferred tax asset</b>	<b>( 366)</b>	<b>200 701</b>	<b>2 530</b>
Of this:			
Classified as deferred tax asset/(liability)	( 366)	0	2 530
Classified as current tax receivable from refund tax value offshore tax losses	0	200 701	0

<b>Reconciliation of effective tax rate</b>	<b>YTD Q2 2019</b>	<b>YTD Q2 2018</b>	<b>Year 2018</b>
Profit/(loss) before income tax	(8 210)	(7 280)	(37 719)
Expected income tax 22% (2018: 23%)	1 806	1 674	8 675
Adjusted for tax effects (22% - 78%) of the following items:			
Permanent differences	(2 594)	628	(4 153)
Adjustments previous years	(1 924)	0	( 162)
Interest on tax losses carried forward offshore	0	0	0
Finance items and different tax rates within the group	0	0	1 890
Changed tax rates from 1 January 2019 and 1 January 2018	0	0	( 552)
Change in valuation allowance for deferred tax assets	( 302)	(2 046)	(2 972)
<b>Total income tax credit</b>	<b>(3 015)</b>	<b>256</b>	<b>2 726</b>

## Note 9 - Financial investments

Financial investments are investments in bond funds, shares and bonds. The main investments at 30 June 2019 consist of bond funds, shares in Touchstone Exploration, and various shares and bonds.

## Note 10 - Fair value of financial instruments

The carrying amount of cash and cash equivalents and other current receivables is approximately equal to fair value, since these instruments have a short term to maturity. Similarly, the carrying amount of trade creditors and other current liabilities is approximately equal to fair value, since the effect of discounting is not significant, due to short term to maturity.

Fair value of the stock exchange-listed shares is the stock market price at the balance sheet date (level 1 in the fair value hierarchy). Fair value of bond funds and bonds is based on quoted market prices at the balance sheet date (level 2 in the fair value hierarchy). Fair value of other non-listed investments is valued using the best information available in the circumstances including the entities' own data. (level 3 in the fair value hierarchy).

## Specification of financial instruments based on level in the fair value hierarchy

<b>Fair Value 30.06.2019</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Shares	45 113		0	45 113
Bonds		9 349		9 349
Bond funds		121 664		121 664
<b>Total fair value</b>	<b>45 113</b>	<b>131 012</b>	<b>0</b>	<b>176 125</b>

There has been no transfer between level 1 and level 2 during 2019.

<b>Reconciliation of level 3 in the fair value hierarchy</b>	<b>Level 3</b>
Opening balance	0
Movement during the quarter	0
<b>Closing balance</b>	<b>0</b>

## Note 11 - Investment in an associate

Reconciliation and specification of carrying amount of investment in associates:

	<b>30.06.2019</b>	<b>30.06.2018</b>	<b>31.12.2018</b>
Opening balance carrying amount of investments in associates	98 453	89 320	89 320
Acquisition cost additional shares acquired, Reach Subsea	8 971	0	4 605
Acquisition cost shares acquired, Tyveholmen AS	0	0	6 994
Impairment/reversal of impairment of investment, Reach Subsea	0	891	891
Share of net result in investment, Reach Subsea	(5 713)	(3 894)	(3 411)
Share of net result in investment, Tyveholmen AS	0	0	54
Dividend received, Reach Subsea	(3 229)	0	0
<b>Total carrying amount of investments in associates at balance date</b>	<b>98 482</b>	<b>86 316</b>	<b>98 453</b>

Specification of net result from investment in an associate recognised in the income statement:

	<b>YTD Q2 2019</b>	<b>YTD Q2 2018</b>	<b>Year 2018</b>
Reversal of impairment of investment, Reach Subsea	0	891	891
Share of net result in investment, Reach Subsea *	(5 713)	(3 894)	(3 411)
Share of net result in investment, Tyveholmen	0	0	54
<b>Net result from investments in associates</b>	<b>(5 713)</b>	<b>(3 004)</b>	<b>(2 466)</b>

\* Share of net result in Reach YTD Q2 2019 is Q1 2019 result.

## Note 12 - Events after the balance sheet date

No material events have occurred after the balance sheet date that impact these interim financial statements.

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## Statement from the Board of Directors and Chief Executive Officer

We confirm, to the best of our knowledge, that the unaudited condensed set of financial statements for the first half of 2019 has been prepared in accordance with IAS 34 Interim Financial Reporting and gives a true and fair view of the Group's assets, liabilities, financial position and results of operations, and that the interim management report includes a fair review of the information required under the Norwegian Securities Trading Act section 5-6 fourth paragraph.

Oslo, 21 August 2019

**Anders Onarheim**

Chairman

**Jogeir Romestrand**

Director

**Elin Karfjell**

Director

**Knut Sæberg**

CEO

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