

31 March 2020

DNO North Sea plc

Unaudited Interim Results for the Second Half-Year Ending 31 December 2019

DNO North Sea plc (the "Company") through its subsidiaries is engaged in oil and gas exploration, development and production activities in Norway and the United Kingdom (the "UK"). The Company announces its consolidated unaudited Interim Results for the second half-year ending 31 December 2019. When used herein, "DNO North Sea" refers to the Company together with its subsidiaries.

Activity Overview

Production

Company Working Interest ("CWI") production averaged 16,926 barrels of oil equivalent per day ("boepd") in Norway and the UK during H2 2019, of which 16,042 boepd was in Norway and 884 boepd was in the UK. During H1 2019, CWI production averaged 17,820 boepd, of which 16,920 boepd was in Norway¹ and 900 boepd was in the UK.

DNO North Sea has diversified production across 13 fields, of which nine are in Norway and four in the UK.

Acquisition of DNO Norge AS

In December 2019, as a result of regulatory requirements to merge the activities of the two DNO entities operating on the Norwegian Continental Shelf ("NCS"), the Company acquired the shareholding of DNO Norge AS from its parent company, DNO ASA, for a consideration of GBP 21.3 million, after which the businesses of DNO Norge AS and DNO North Sea (Norge) AS were merged.

License portfolio and drilling activity

At yearend 2019, DNO North Sea held interests in 102 licenses, of which 87 licenses were in Norway (22 operatorships), 12 licenses in the UK (one operatorship), two licenses in the Netherlands and one in Ireland. In January 2020, the Company's subsidiary DNO Norge AS was awarded participation in 10 additional exploration licenses in Norway, of which two are operatorships, under Norway's Awards in Predefined Areas (APA) 2019 licensing round.

In 2019, 17 wells were spud, including 10 exploration and appraisal wells and six production and injection wells in Norway and one exploration well in the UK.

¹ Includes production from the assets added through the swap agreement with Equinor Energy AS effective from 1 January 2019, see Note 11 for details.

Financial review

Revenues, operating profit and cash

Revenues in H2 2019 were GBP 112.0 million compared to GBP 149.2 million in H2 2018. The decrease in revenues was primarily driven by lower lifted volumes, partially offset by additional revenues from the assets acquired through the swap agreement with Equinor Energy AS ("Equinor asset swap") completed on 30 April 2019 but effective from 1 January 2019.

DNO North Sea reported an operating loss of GBP 64.3 million in H2 2019 compared to an operating loss of GBP 28.0 million in H2 2018. This was primarily due to lower revenues, higher exploration expenses and an IFRS measurement period downward adjustment to the purchase price allocation ("PPA") in relation to the Equinor asset swap of GBP 10.2 million. This was partially offset by reduced administrative expenses due to higher timewriting recovery in H2 2019.

The DNO North Sea ended the period with a cash balance of GBP 53.6 million compared to GBP 114.5 million at the end of the previous year. The decrease is primarily due to significant investments in capital projects and payments for liabilities related to change of control.

Cost of goods sold

In H2 2019, the total cost of goods sold, including lifting costs and depreciation, depletion and amortization ("DD&A"), was GBP 70.1 million, compared to GBP 76.1 million in H2 2018.

Lifting costs in H2 2019 totaled GBP 34.6 million, compared to GBP 31.9 million in H2 2018.

DD&A costs totaled GBP 31.7 million in H2 2019, compared to GBP 10.9 million in H2 2018.

Exploration expenses

Total expensed exploration costs totaled GBP 59.1 million in H2 2019, compared to GBP 34.3 million in H2 2018.

Acquisition and development costs

Total acquisition and development costs totaled GBP 76.2 million in H2 2019, compared to GBP 59.7 million in H1 2019.

Consolidated statements of comprehensive income

(unaudited, in GBP thousand)	Note	Second Half-Year		Full-Year	
		2019	Restated 2018	2019	Restated 2018
Revenues	2	111,999	149,246	200,657	217,086
Cost of goods sold	3	-70,069	-76,129	-133,985	-116,617
Gross profit		41,930	73,117	66,672	100,469
Other income	4	-249	507	-534	19,242
Administrative expenses		1,114	-25,010	-8,121	-30,284
Impairment oil and gas assets	6	-37,742	-41,560	-37,742	-41,560
Exploration expenses		-59,149	-34,327	-68,750	-50,366
Gain/-loss on disposal of asset	11	-10,244	-722	69,848	23,798
Profit/-loss from operating activities		-64,340	-27,995	21,373	21,299
Financial income		567	581	1,251	1,198
Financial expenses		-20,072	-14,486	-27,776	-24,637
Profit/-loss before income tax		-83,845	-41,900	-5,152	-2,140
Tax income/-expense	5	38,665	8,918	41,506	4,325
Net profit/-loss		-45,180	-32,982	36,354	2,185
Other comprehensive income					
Currency translation differences		-14,260	-3,299	-19,904	2,791
Revaluation of financial investments		-	-1,915	-	-769
Items that may be reclassified to profit or loss in later periods		-14,260	-5,214	-19,904	2,022
Total other comprehensive income, net of tax		-14,260	-5,214	-19,904	2,022
Total comprehensive income, net of tax		-59,440	-38,196	16,450	4,207

Consolidated statements of financial position

ASSETS		At 31 Dec	
(unaudited, in GBP thousand)	Note	2019	Restated 2018
Non-current assets			
Goodwill	6,11	76,883	7,445
Deferred tax assets	5	68,624	176,165
Other intangible assets	6	79,503	26,310
Property, plant and equipment	6	366,976	266,429
Right-of-use assets	6	5,211	-
Total non-current assets		597,197	476,349
Current assets			
Inventories		12,049	12,612
Trade and other receivables	7	119,126	90,406
Tax receivables	5	123,044	25,291
Cash and cash equivalents		53,588	114,509
Total current assets		307,807	242,818
Assets held for sale		-	70,991
TOTAL ASSETS		905,004	790,158
EQUITY AND LIABILITIES		At 31 Dec	
(unaudited, in GBP thousand)	Note	2019	Restated 2018
Equity			
Share capital		39,594	37,289
Other reserves		337,404	353,718
Other reserves		-129,793	-165,271
Reserves held for sale		-	-2,684
Total equity		247,205	223,052
Non-current liabilities			
Deferred tax liabilities	5	11,107	-
Interest-bearing liabilities	9	89,332	77,579
Lease liabilities	10	4,365	-
Long-term debt to group companies		21,541	-
Provisions for other liabilities and charges	10	272,970	283,556
Total non-current liabilities		399,315	361,135
Current liabilities			
Trade and other payables	8	132,116	144,967
Income tax payable	5	185	930
Current interest-bearing liabilities	9	64,794	14,057
Current lease liabilities	10	998	-
Short-term debt to group companies		2,998	-
Provisions for other liabilities and charges	10	57,393	15,123
Total current liabilities		258,484	175,077
Liabilities directly associated with assets held for sale		-	30,894
Total liabilities		657,799	567,106
TOTAL EQUITY AND LIABILITIES		905,004	790,158

Consolidated cash flow statement

(unaudited, GBP thousand)	Note	Second Half-Year		Full-Year	
		2019	Restated 2018	2019	Restated 2018
Operating activities					
Profit/-loss before income tax		-83,845	-41,900	-5,152	-2,140
Adjustments to add/-deduct non-cash items:					
Depreciation, depletion and amortization	3	31,671	10,921	50,226	25,461
Impairment oil and gas assets	6	37,742	41,560	37,742	41,560
Loss/-gain on PP&E	11	10,244	722	-69,848	-23,798
Other*		12,123	12,029	15,039	55,967
Change in working capital items and provisions:					
- Inventories		-1,112	-3,203	1,530	-3,573
- Trade and other receivables		-25,361	53,564	-5,745	2,837
- Trade and other payables		50,898	-5,155	-5,284	28,555
Cash generated from operations		32,360	68,538	18,508	124,869
Tax refund received		23,005	36,632	23,005	36,696
Net interests received/-paid		-3,987	-4,745	-9,429	-9,062
Net cash from/-used in operating activities		51,378	100,425	32,084	152,503
Investing activities					
Purchases of intangible assets		-16,610	-28,479	-37,805	-67,021
Proceeds from sale of intangible assets		-	-	-	40,430
Purchases of tangible assets		-59,568	-71,981	-98,033	-132,075
Payments for decommissioning		-10,710	-5,769	-17,095	-9,766
Proceeds from license transactions		-	836	-	836
Acquisitions net of cash acquired		7,808	-	31,281	-
Net cash from/-used in investing activities		-79,080	-105,393	-121,652	-167,596
Financing activities					
Proceeds from borrowings net of issue costs	9	119,589	-39,118	133,010	-19,481
Repayment of borrowings	9	-93,407	-	-104,363	-
Net cash from/-used in financing activities		26,182	-39,118	28,647	-19,481
Net increase/-decrease in cash and cash equivalents		-1,520	-44,086	-60,921	-34,574
Cash and cash equivalents at beginning of the period		55,108	158,595	114,509	149,083
Cash and cash equivalents at the end of the period		53,588	114,509	53,588	114,509

* Includes net interest income/-expense, exploration write offs, and currency translation adjustments

Consolidated statement of changes in equity

(unaudited, in GBP thousand)	Share capital	Other reserves	Retained earnings	Reserves held for sale	Total equity
Total equity as of 31 December 2017	36,664	343,623	-152,370	-1,915	226,002
Change in accounting principles - Note 1	-	-	-15,086	-	-15,086
Total equity as of 1 January 2018	36,664	343,623	-167,456	-1,915	210,916
<i>Fair value changes:</i>					
Fair value changes from equity instruments	-	-	-	-769	-769
Currency translation differences	-	2,791	-	-	2,791
Other comprehensive income/-loss	-	2,791	-	-769	2,022
Profit/-loss for the period	-	-	2,185	-	2,185
Total comprehensive income	-	2,791	2,185	-769	4,207
Issue of share capital	625	-625	-	-	-
Purchase of treasury shares	-	-4,000	-	-	-4,000
Sale of treasury shares	-	11,929	-	-	11,929
Transaction with shareholders	625	7,304	-	-	7,929
Total equity as of 31 December 2018	37,289	353,718	-165,271	-2,684	223,052
<i>Fair value changes:</i>					
Fair value changes from equity instruments	-	-	-	-	-
Currency translation differences	-	-19,904	-	-	-19,904
Other comprehensive income/-loss	-	-19,904	-	-	-19,904
Profit/-loss for the period	-	-	36,354	-	36,354
Total comprehensive income	-	-19,904	36,354	-	16,450
Completion of asset sale	-	-	-2,684	2,684	-
Share based payment transactions	2,305	3,589	-	-	5,894
Transaction with shareholders	2,305	3,589	-2,684	2,684	5,894
Total equity as of 31 December 2019	39,594	337,403	-129,792	-	247,205

Notes to the consolidated interim financial statements

Note 1 | Basis of preparation and accounting policies

Principal activities and company information

DNO North Sea plc (the “Company”) and its subsidiaries (“DNO North Sea”) are engaged in oil and gas exploration, development and production activities in Norway and the UK.

Basis of preparation

The Company’s consolidated interim financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting* and IFRS standards issued and effective at date of reporting as adopted by the EU.

On 11 January 2019, DNO ASA obtained control of Faroe Petroleum plc (“Faroe”) and subsequently de-listed the company from AIM on 14 February 2019. New directors were appointed on 28 January 2019 and as a result of the acquisition, Faroe changed its name to DNO North Sea plc. Further, as a result of the acquisition, effective 1 January 2019 DNO North Sea’s accounting policies and principles are aligned to DNO ASA’s accounting policies and principles. This resulted in a change to the principle for valuation and presentation of overlift/underlift and a change in the principle for capitalizing exploration and evaluation (“E&E”) costs. In addition, DNO North Sea has made certain reclassifications in the financial statements to align with DNO ASA’s classification policy. A detailed description of the accounting policies and principles applied is included in the DNO ASA Annual Report and Accounts 2019. DNO North Sea financial statements are consolidated in DNO ASA financial statements effective 1 January 2019.

The interim financial information for 2019 and 2018 is unaudited.

Subtotals and totals in some of the tables included in these interim financial statements may not equal the sum of the amounts shown due to rounding.

The interim financial statements have been prepared on a historical cost basis, with the exception of derivative financial instruments and equity instruments which are recognized at fair value.

Changes in accounting policies

Effective 1 January 2019, DNO North Sea made the following changes affecting the significant accounting policies:

- Implementation of IFRS 16 *Leases*. As described in the DNO ASA Annual Report and Accounts 2019, IFRS 16 entered into force from 1 January 2019. IFRS 16 replaces IAS 17 *Leases* and provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The accounting principles applied are in line with the description provided in the DNO ASA Annual Report and Accounts 2019, Note 1. The impact on the balance sheet is presented on separate balance sheet items, and further details are provided in the notes. DNO North Sea has applied the modified retrospective approach with no restatement of comparative figures.
- Change in principle for valuation and presentation of overlift/underlift. Revenues are recognized on the basis of volumes lifted and sold to customers during the period (the sales method). Overlift/underlift balances, previously valued at net realizable value, are now valued at production cost including depreciation and movements in overlift/underlift are presented as an adjustment to cost of goods sold, previously presented as Other revenues. This change was made due to the discussion in the IFRS Interpretations Committee (IFRIC) on the topic “Sale of output by a joint operator (IFRS 11 Joint Arrangements)”, which was concluded in March 2019. The 2018 comparative figures have been restated and the effects of the principle change have been booked to equity (details in the table below).
- Change in principle for capitalizing E&E costs (“Successful efforts method”). IFRS 6 *Exploration for and Evaluation of Mineral Resources* provides the companies some latitude to the accounting of E&E costs (policy choice). DNO North Sea’s accounting policy differed from DNO ASA’s accounting policy with regards to initial recognition of E&E costs. While DNO North Sea’s accounting policy was to capitalize most of the E&E costs including geological and geophysical surveys, administrative costs and seismic acquisition, the E&E initial costs are now expensed as they incur with the exception of capitalization of expenses relating to drilling of exploratory wells as intangible assets pending evaluation of potential oil and gas discoveries. The 2018 comparative figures have been restated and the effects of the principle change have been booked to equity (details in the table below).

Except for the changes described above, the accounting policies adopted in the preparation of the interim financial statements are consistent with those followed in the preparation of the DNO ASA Annual Report and Accounts 2019.

Restatement adjustments (unaudited, GBP thousand)	Second Half-Year 2018	Full-Year 2018
Balance sheet:		
Deferred tax assets	3,267	68,740
Other intangible assets	-15,516	-80,247
Trade and other receivables	10,989	-8,220
Retained Earnings	3,923	15,086
Income statement:		
Cost of goods sold	25,003	5,795
Exploration expenses	-11,700	-25,690
Tax income/-expense	-10,640	15,254

Note 2 | Revenues

(unaudited, in GBP thousand)	Second Half-Year		Full Year	
	Restated		Restated	
	2019	2018	2019	2018
Oil sales	85,902	122,492	159,391	161,520
Gas sales	16,122	23,930	28,708	48,632
Natural gas liquids sales	8,358	2,099	9,616	3,571
Tariff income	1,617	725	2,942	3,363
Total revenues	111,999	149,246	200,657	217,086

Note 3 | Cost of goods sold

(unaudited, in GBP thousand)	Second Half-Year		Full-Year	
	Restated		Restated	
	2019	2018	2019	2018
Lifting costs	-34,559	-31,873	-71,165	-67,978
Tariff and transportation expenses	-20,470	-11,624	-29,736	-21,866
Production cost based on produced volumes	-55,029	-43,497	-100,901	-89,844
Movement in overlift/underlift	15,657	-30,213	17,142	-12,095
Production cost based on sold volumes	-39,372	-73,710	-83,759	-101,939
Depreciation, depletion and amortization	-31,671	-10,921	-50,226	-25,461
Change in abandonment estimate	974	8,502	-	10,783
Total cost of goods sold	-70,069	-76,129	-133,985	-116,617

Note 4 | Other income/-expense

(unaudited, in GBP thousand)	Second Half-Year		Full-Year	
	Restated		Restated	
	2019	2018	2019	2018
Compensation income	-251	400	-	21,710
Realized hedging losses	44	-3,028	-534	-5,947
Unrealized hedging gains	-42	3,135	-	3,479
Total other income/-expense	-249	507	-534	19,242

Note 5 | Income taxes

(unaudited, in GBP thousand)	Second Half-Year		Full-Year	
	2019	Restated 2018	2019	Restated 2018
Tax income/-expense				
Change in deferred taxes	-34,025	1,931	-3,171	26,242
Income tax receivable/-payable	72,690	6,987	44,677	-21,917
Total tax income/-expense	38,665	8,918	41,506	4,325

(unaudited, in GBP thousand)	At 31 Dec	
	2019	Restated 2018
Income tax receivable/-payable		
Tax receivables (current)	123,044	25,291
Income tax payable	-185	-930
Net tax receivable/-payable	122,859	24,361

Deferred tax assets/-liabilities		
Deferred tax assets	68,624	176,165
Deferred tax liabilities	-11,107	-
Total deferred tax assets/-liabilities	57,517	176,165

Note 6 | Other intangible assets/ Property, plant and equipment (PP&E)/ Right-of-use (RoU) assets

(unaudited, GBP thousand)	Second Half-Year		Full year	
	Restated		Restated	
	2019	2018	2019	2018
Additions of Other intangible assets	17,038	28,479	38,233	67,021
Transfer of intangible assets due to accounting policy change	-	-11,700	-	-76,431
Additions of PP&E	91,838	71,981	130,303	132,075
Additions of PP&E through business combination*	-5,961	-2,345	113,504	372
Additions of RoU assets	3,622	-	5,814	-

* See Note 11 for assets added through the Equinor asset swap.

Additions of other intangible assets are related to capitalized exploration costs, license interests and administrative software. Additions of PP&E are related to development assets, production assets including estimate change on asset retirement obligations and other PP&E.

The RoU assets are mainly related to office rent. Leases of personal computers and IT equipment with contract terms of one to three years are considered low value assets and as such, are not recognized and the leases are instead expensed when the costs are incurred. A practical expedient has been applied to not recognize lease liabilities and RoU assets for short-term leases. The RoU assets are depreciated linearly over the lifetime of the related lease contract. The lease term varies from two to six years.

Impairments

At each reporting date, DNO North Sea assesses whether there is an indication that an asset may be impaired. An assessment of the recoverable amount is made when an impairment indicator exists. Goodwill is tested for impairment annually or more frequently when there are impairment indicators. Impairment is recognized when the carrying amount of an asset or a cash-generating unit ("CGU"), including associated goodwill, exceeds the recoverable amount. The recoverable amount is the higher of the asset's fair value less cost to sell and the value in use. During 2019, a total impairment charge of GBP 37.7 million was recognized, of which GBP 29.8 million was due to an upward revision in the cost estimate for decommissioning the Schooner and Ketch fields in the UK and GBP 5.0 million was related to impairment of technical goodwill with no tax impact on the Marulk and Vilje fields in Norway mainly triggered by updated production and cost profiles at yearend 2019. During 2018, a total impairment charge of GBP 41.6 million was recognized, of which GBP 30.3 million related to an upward revision in the cost estimate for decommissioning the Schooner and Ketch fields, and GBP 9.2 million related to updated oil and gas price assumptions and downward revision to reserves.

(unaudited, GBP thousands)	Full-Year ending 31 December 2019	
	Impairment charge (-)/ reversal (+)	Net recoverable/ Net carrying amount
Schooner and Ketch	-29,807	-
Oselvar	-2,656	-
Vilje	-1,535	28,377
Marulk	-3,449	14,932
Others	-295	-
Total	-37,742	43,309

(unaudited, GBP thousands)	Full-Year ending 31 December 2018	
	Impairment charge (-)/ reversal (+)	Net recoverable/ Net carrying amount
Schooner and Ketch	-30,337	-
Blane	-2,020	27,912
Ula	-5,459	28,700
Brage	-1,769	20,400
Blane (book value of Goodwill)	-1,975	-
Total	-41,560	77,012

Note 7 | Trade and other receivables

(unaudited, GBP thousand)	At 31 Dec	
	2019	Restated 2018
Trade debtors	1,513	9,440
Underlift	28,520	12,475
Other receivables	35,372	51,963
Prepayments and accrued income	45,636	8,537
Restricted cash deposits	8,085	7,991
Total trade and other receivables	119,126	90,406

Note 8 | Trade and other payables

(unaudited, GBP thousand)	Full-Year	
	2019	Restated 2018
Trade creditors	20,283	36,722
Deferred income	37,910	14,244
Other payables	1,298	4,339
Accruals	65,555	81,957
Derivatives	-	4,101
Overlift	7,069	3,604
Total trade and other payables	132,115	144,967

Note 9 | Interest-bearing liabilities

Interest-bearing liabilities

(unaudited, GBP thousand)	Ticker	Facility currency	Facility amount	Interest	Maturity	At 31 Dec	
						2019	Restated 2018
Non-current							
Bond loan (ISIN NO0010811268)	FAPE01	USD	85,658	8.00%	28/04/23	64,977	77,579
Borrowing issue costs related to bonds						-4,305	-
Reserve based lending facility - USD drawdowns				See below	07/11/26	3,787	-
Reserve based lending facility - GBP drawdowns				See below	07/11/26	20,000	-
Reserve based lending facility - NOK drawdowns				See below	07/11/26	4,873	-
Total non-current interest-bearing liabilities						89,332	77,579
Current							
Exploration financing facility		NOK	1,000,000	see below	see below	64,794	14,057
Total current interest-bearing liabilities						64,794	14,057
Total interest-bearing liabilities						154,126	91,636

On 21 November 2017, the Company issued a USD 100 million senior unsecured bond in the Nordic bond market, with a fixed coupon of 8.00 percent payable semi-annually. The final maturity is on 28 April 2023. The senior notes are listed on the Nordic ABM. In February 2019, due to the change in control, some bond holders exercised their put rights leading to a repayment of USD 14.2 million.

DNO North Sea has available a revolving exploration financing facility (EFF) with a total amount of NOK 1 billion. An additional tranche of NOK 500 million is available on an uncommitted accordion basis. Utilization requests need to be delivered for each proposed loan. The facility is secured against the Norwegian tax refund and is repaid when the refund is received, which is approximately 11 months after the end of the financial year. The interest rate equals NIBOR plus a margin of 1.70 percent. Utilizations can be made until 31 December 2022. Amount utilized as of the reporting date is disclosed in the table above.

DNO North Sea has a reserve-based lending (RBL) facility in relation to its Norway and UK licenses with a total facility amount of USD 350 million which is available for both debt and issuance of letters of credit. An additional tranche of USD 350 million is available on an uncommitted accordion basis. Interest charged on utilizations is based on the LIBOR, NIBOR, or EURIBOR rates (depending on the currency of the drawdown) plus a margin ranging from 2.75 to 3.25 percent. The facility will amortize over the loan life with a final maturity date of 7 November 2026. The security under the RBL includes, without limitation, a pledge over the shares in DNO North Sea plc and its subsidiaries, assignment of claims under shareholder loans, intra-group loans and insurances, a pledge of certain bank accounts and mortgages over the license interests. There are also restrictions on loans and dividend payments to DNO ASA. The amount utilized as of the reporting date is disclosed in the table above. In addition, USD 90.6 million is utilized in respect of letters of credit.

The current EFF and RBL facilities were established on 15 November 2019 and replaced previous facilities.

Note 10 | Provisions for other liabilities and charges/ Lease liabilities

(unaudited, GBP thousand)	At 31 Dec	
	2019	Restated 2018
Non-current		
Asset retirement obligations	271,361	283,556
Other long-term provisions and charges	1,609	-
Lease liabilities	4,365	-
Total non-current provisions for other liabilities and charges and lease liabilities	277,335	283,556
Current		
Asset retirement obligations	56,780	15,123
Other provisions and charges	613	-
Current lease liabilities	998	-
Total current provisions for other liabilities and charges and lease liabilities	58,391	15,123
Total provisions for other liabilities and charges and lease liabilities	335,726	298,679

Asset retirement obligations

The provisions for asset retirement obligations are based on the present value of estimated future cost of decommissioning oil and gas assets in the NCS and the UKCS. The discount rates before tax applied at yearend 2019 were between 3.5 percent and 3.7 percent (4.0 percent in 2018). The credit margin included in the discount rates at yearend 2019 was 1.9 percent.

Lease liabilities

The identified lease liabilities have no significant impact on DNO North Sea's financing or loan covenants. DNO North Sea does not have any residual value guarantees. Extension options are included in the lease liability when, based on the management's judgement, it is reasonably certain that an extension will be exercised.

Note 11 | Acquisitions

Assets swap agreement with Equinor Energy AS (Equinor)

On 30 April 2019, DNO North Sea completed a swap agreement with Equinor Energy AS, a wholly-owned subsidiary of Equinor ASA following approval by the Norwegian authorities. The swap agreement was signed on 4 December 2018 and represented a balanced swap with no cash consideration. The effective date of the transaction was 1 January 2019.

As part of the transaction, DNO's interests in the non-producing Njord and Hyme redevelopment and Bauge development assets (divested assets) acquired through the Faroe transaction were exchanged for interests in four Equinor-held producing assets on a cashless basis, including interests in the Alve, Marulk, Ringhorne East and Vilje fields (acquired assets). DNO North Sea received a USD 46 million payment from Equinor reflecting net income from the acquired assets, reimbursement of investments related to the divested assets and working capital adjustments from 1 January 2019 to transaction completion on 30 April 2019.

Purchase price allocation ("PPA")

The transaction is regarded as a business combination and is accounted for using the acquisition method in accordance with IFRS 3 *Business Combinations*. The general principle in IFRS 3 is that the identifiable assets acquired and liabilities assumed are measured at their acquisition date fair values. Each identifiable asset and liability is measured at its acquisition date fair value based on guidance in IFRS 3 and IFRS 13 *Fair Value Measurement*. The standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This definition emphasizes that the fair value is a market-based measurement, not an entity-specific measurement. When measuring the fair value, DNO North Sea uses the assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. Acquired producing and development assets (i.e. PP&E) as well as discovery assets (i.e. intangible assets) have been valued using the income-based approach.

The acquisition date for accounting purposes was 30 April 2019, which was when the Norwegian authorities approved the transaction. A PPA was performed as of this acquisition date to allocate the consideration to provisional fair values of acquired assets and assumed liabilities of the acquired assets. Provisional fair values of the acquired assets and liabilities assumed as of the acquisition date were as shown in the table below:

(unaudited, GBP thousand)	Fair value at acquisition date
Property, plant and equipment	113,504
Tax receivables (non-current)	-17,979
Trade and other receivables	1,752
Cash and cash equivalents	23,473
Total assets	120,750
Deferred tax liabilities	72,884
Provisions for other liabilities and charges (non-current)	11,144
Total liabilities	84,028
Total identifiable net assets at fair value	36,722
Fair value of acquired assets	117,181
Goodwill	80,459

The goodwill recognized in the transaction relates to technical goodwill due to the requirement to recognize deferred tax assets and liabilities for the temporary difference between the assigned fair values and the tax bases of assets acquired and liabilities assumed in a business combination. Licenses under development and licenses in production can only be sold on a post-tax value pursuant to the Norwegian Petroleum Taxation Act, section 10. The assessment of fair value of such licenses is therefore based on cash flows after tax. Nevertheless, in accordance with IAS 12 *Income Taxes*, a provision is made for deferred tax corresponding to the tax rate multiplied by the difference between the acquisition cost and the tax base. The offsetting entry to this deferred tax is technical goodwill. This goodwill is not deductible for tax purposes.

The provisional fair values from the table above are based on currently available information about fair values as of the acquisition date. If new information becomes available within 12 months from the acquisition date (i.e., measurement period), the fair value assessment in the PPAs may change in accordance with guidance in IFRS 3. Eventual changes in fair values is recorded retrospectively from the acquisition date.

For comparison purposes, assuming that the acquisition had taken place effective 1 January 2019, it is estimated that 2019 revenues would have increased by GBP 20 million while net profit (after tax) would have increased by GBP 4 million.

Note 11 | Acquisitions (continued)

The divested assets have been derecognized resulting in an accounting gain of GBP 69.8 million being recognized on the difference between the carrying amount of the divested assets and estimated fair value recognised for the acquired assets, as shown below. In H2 2019, a measurement period adjustment totaling GBP -10.2 million was booked to the provisional PPA.

(unaudited, GBP thousands)	Full year 2019
Carrying amount of divested assets	47,333
Fair value of acquired assets	117,181
Accounting gain on disposal of asset	69,848

Acquisition of DNO Norge AS

In December 2019, as a result of regulatory requirements to merge the activities of the DNO entities operating on the NCS, the Company acquired 100 percent of the share capital of DNO Norge AS from its parent company DNO ASA for a consideration of GBP 21.3 million, settled in the form of a Promissory Note to DNO ASA. The transaction was not regarded as a business combination but was instead accounted for as acquisition of an asset.

Note 12 | Subsequent events

DNO Norge AS receives 10 awards in Norway's APA licensing round

In 14 January 2020, the Company's subsidiary DNO Norge AS was awarded participation in 10 exploration licenses, of which two are operatorships, under Norway's Awards in Predefined Areas (APA) 2019 licensing round. Of the 10 new licenses, five are in the North Sea, two in the Norwegian Sea and three in the Barents Sea.

Coronavirus outbreak

The outbreak of the coronavirus (COVID-19) and the significant decline in oil prices in the first quarter of 2020 will have adverse effects on the DNO North Sea's operations and financial results this year, but the extent and duration of these conditions over the longer term remain largely uncertain and dependent on future developments that cannot be accurately predicted at this time. Both are considered to be non-adjusting events, as national and international responses to coronavirus and the failure of Saudi Arabia and Russia to agree on cuts in oil production to help bolster price occurred in 2020. Future oil price assumptions are key estimates in the DNO North Sea's financial statements and a change in these assumptions may impact the recoverable amount of DNO North Sea's oil and gas assets, reserve and resource estimates and operational spend level. Continuing low oil prices may also reduce DNO North Sea's revenues.

Glossary

boepd	barrels of oil equivalent per day
CWI	Company working interest
DD&A	depletion, depreciation and amortization
mmboe	million barrels of oil equivalent
PP&E	Property, plant and equipment
RoU	Right-of-use
Acquisition and development costs	Acquisition and development costs comprise the purchase of intangible and tangible assets irrespective of whether paid in the period
Lifting costs	Lifting costs comprise of expenses related to the production of oil and gas, including operation and maintenance of installations, well intervention activities and insurances.