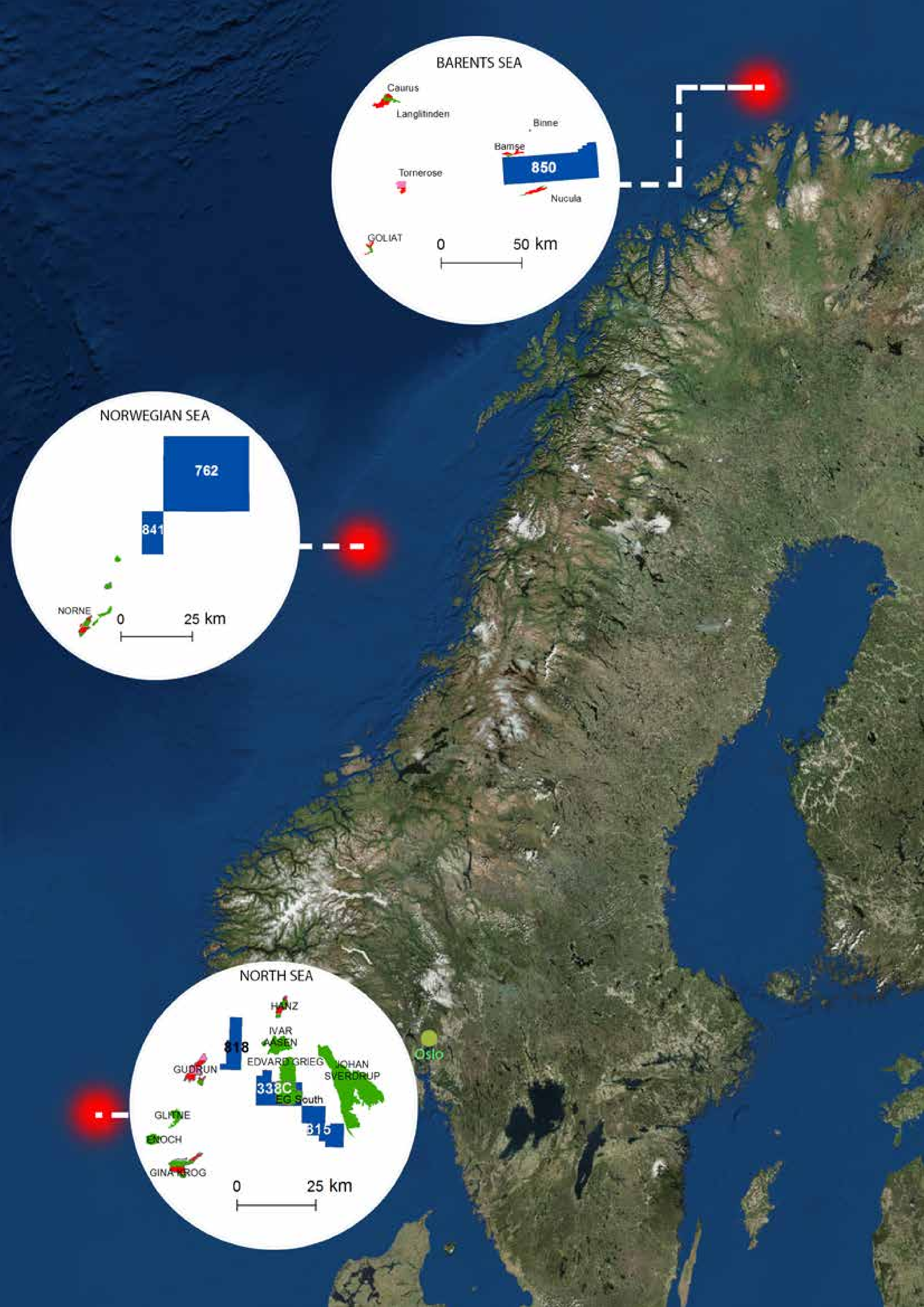
Lime
PETROLEUM

# ANNUAL REPORT 2016


BARENTS SEA
Caurus
Langlitinden
Binne
Bamse
850
Tornerose
Nucula
GOLIAT
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50 km
NORWEGIAN SEA
762
841
NORNE
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25 km
NORTH SEA
HANZ
IVAR
AASEN
818
EDVARD GRIEG
JOHAN
SVERDRUP
GUDRUN
338C
EG South
GLITNE
815
ENOCH
GINA KROG
0
25 km
Oslo

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# Licence Portfolio Information

| Licence | Location | Lime stake | Operator | Other Partners | Expiry date |
|---|---|---|---|---|---|
| PL338C | North Sea | 30% | Lundin Petroleum Norway AS | OMV (Norge) AS | 17.12.2019 |
| PL815 | North Sea | 20% | Lundin Petroleum Norway AS | Petoro AS, Concedo ASA | 05.02.2022 |
| PL818 | North Sea | 30% | AkerBP ASA | Statoil Petroleum AS | 05.02.2023 |
| PL762 | Norwegian Sea | 20% | AkerBP ASA | Fortis Petroleum AS, Petoro AS | 05.02.2022 |
| PL841 | Norwegian Sea | 20% | Edison Norge AS | Statoil Petroleum AS, Petoro AS | 05.02.2023 |
| PL850 | Barents Sea | 20% | Edison Norge AS | Kufpec Norway AS, PGNIG Upstream International AS | 05.02.2024 |

Front page: Close-up photo of granite from Bømlo, similar to the weathered and fractured basement reservoir of the Edvard Grieg South discovery

# Positive Exploration Results

Lime Petroleum was one of the most active exploration companies during 2015 and 2016, participating in drilling six exploration wells with an average interest of 25%. The wells resulted in the Edvard Grieg South oil discovery n the North Sea deemed to be commercial, and the Ørnen non-commercial oil/gas discovery in the Barents Sea.

The Company was one of the winners in APA2015, being awarded five licences in February 2016 with an average participating interest of 28%.

Following these successful events, the Company consolidated the position during 2016, performing geological/geophysical studies integrated with Rex Virtual Drilling (RVD) on most of the licences in the portfolio. In close cooperation with the operators and other licence partners, it was decided to relinquish a number of the licences deemed not to meet the criteria for future successful exploration.

The remaining portfolio consists of six licences of which four are new from the February 2016 award. These licences are expected to deliver one oil development and at least three exploration wells over the next few years.

The main core area is in the North Sea, with the Edvard Grieg South discovery on PL338C considered to be the most valuable asset. However, the adjacent PL815 with the Goddo prospect could represent a direct continuation of the discovery with the potential to significantly increase the size. The operator is Lundin with 40% ownership, Lime holds 20%, Concedo 20% and Petoro 20%. The current plan is to commercialise the proven oil before investing in further exploration and appraisal drilling.

**PL338C – Edvard Grieg South Discovery**

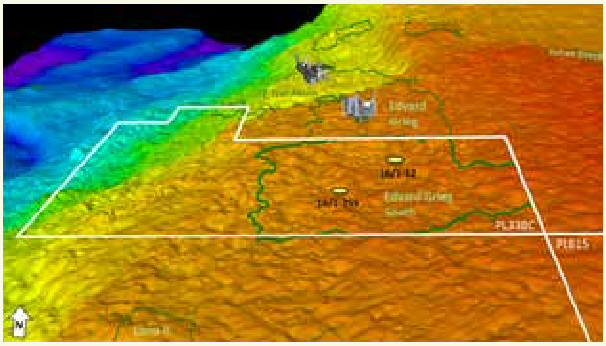



Illustration of the Utsira High at Base Cretaceous level, representing the top of the reservoir intervals of most fields in the area

The discovery was confirmed by well 16/1-25S drilled late 2015 on PL338C located on the Utsira High in the North Sea. The partnership is Lundin as operator owning 50%, Lime 30% and OMV 20%. The water depth is 100m and the discovery is some 7km south of the producing Edvard Grieg platform, also operated by Lundin.

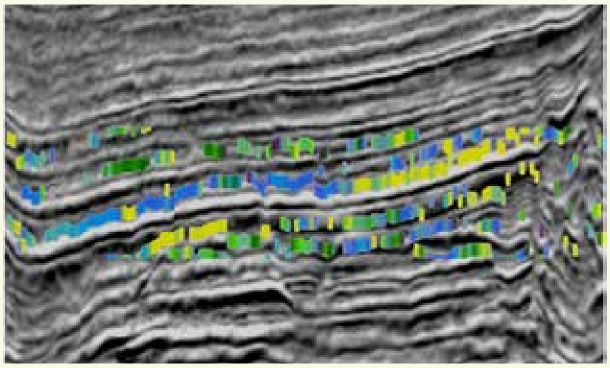
The well was drilled to a total depth of 2096m, finding a gross oil column of 32m in porous weathered and fractured granitic basement. Pressure data and analysis of the good quality oil indicate communication with the 42m oil column in a similar reservoir rock in well 16/1-12 drilled about 3km to the north on the discovery by Lundin in 2009. Extensive data acquisition was carried out, including coring and fluid sampling. A frac and injection test was made, giving a stable rate of some 6000 barrels per day, taken to represent the production capability.

RVD was used to make the decision to drill the second well on the discovery in 2015, indicating a larger size than what had been proven by the first well. Indeed, RVD shows good correlation with the discovery as outlined after drilling well 16/1-25S.

An independent resource assessment has been carried out by Gaffney, Cline & Associates, concluding that as of today the gross best estimate (2c) is 31.4 million barrels oil with a high case of 78 million barrels plus some associated gas.

Development feasibility studies based on tie-back to the Edvard Grieg platform have been carried out during 2016 and are expected finalised first half 2017. The likely concept will allow a flexible and phased schedule to de-risk the project and provide revenue for the continued development.

## Rex Virtual Drilling – RVDv3



Seismic amplitude relief section with RVDv3 results superimposed. Yellow indicates high likelihood of oil presence, green possible oil presence and blue unlikely oil presence

Rex Virtual Drilling is the name of a seismic technology proprietary to Lime's main shareholder, the Rex Group.

Standard seismic data is being processed to identify resonance patterns in the low frequency range indicative of different liquid content, thus being able to discriminate between oil and water in reservoir rocks with porosity and permeability characteristics suitable for oil production. The results are output as a seismic attribute cube that can be superimposed on the standard amplitude seismic.

RVD is integrated with conventional geological and geophysical studies in the work flow to obtain irreducible risk on exploration prospects prior to drilling, to identify upside on discoveries and to assess bypassed oil in producing fields.

Lime Petroleum has used RVD successfully on many evaluations of farm-in opportunities during the year, saving the Company the expense to participate in dry wells.

PL818 is located within the same area; close to the AkerBP operated producing oil field Ivar Aasen. AkerBP is also the operator of PL818, holding 50%, with Lime 30% and Statoil 20%. Seismic has been reprocessed and evaluation of the prospectivity is on-going. Upon successful drilling, a discovery could be developed swiftly as a satellite to the Ivar Aasen field.

The remaining three licences offer high impact exploration opportunities. In the Norwegian Sea, on a northwards trend from the producing Norne oil/gas field, Lime Petroleum holds a 20 percent interest in licence PL841 alongside operator Edison (40%), Statoil (20%) and Petoro (20%). The block had previously been explored in the 1990s and one well drilled. Current technology including RVDv3 indicates the well to be a missed discovery. This licence was also awarded to Lime Petroleum last year based on its own analysis. The adjacent PL762 covers the Vagar prospect, which is currently being evaluated using RVDv3. The final licence, PL850, is located in the Barents Sea, east of the producing oil field Goliat. This was awarded to Lime Petroleum with 20% interest in 2016. The Ulv prospect on the licence is deemed to have commercially viable size and a new 3D seismic survey has been acquired which will be evaluated using RVDv3.

Norway and Oman are the two areas of focus for the Rex Group, being the main shareholder of Lime Petroleum Norway with almost 90% ownership. The vision is to build a sustainable oil company. The strategy for value creation and growth potential is infrastructure led exploration, while development and production is to provide the long-term sustainability. Throughout, the Company remains technology driven, particularly leveraging RVD to reduce exploration risks.

Several farm-in and transaction opportunities were evaluated during the year, and this will continue in 2017 towards reaching the Company's vision. Hence, the plan is to participate in drilling of at least one well during 2017. Further, Lime Petroleum will continue to contribute positively towards maturing the Edvard Grieg South discovery for development in the near-term.

Terje Hagevang
CEO

# Directors' Report 2016

**About Lime Petroleum Norway AS**
Lime Petroleum Norway AS ("Lime" or "the Company") was established 14 August 2012. As of 31 December 2016, the shareholders are Rex International Investments Pte. Ltd. (87.8% equity), a wholly owned subsidiary of Rex International Holding Limited ("Rex"), Schroder & Co Banque SA (10% equity), and Lime Petroleum Plc (2.2% equity), a jointly controlled entity in which Rex has 65% indirect ownership and Hibiscus Petroleum Berhad has 35% indirect ownership. The Company is located in Oslo, Norway with offices at Drammensveien 145A.

Lime's main business is to explore for, develop and produce oil and gas on the Norwegian Continental Shelf. Up to the end of 2016 Lime has participated in drilling of six exploration wells.

**2016 Operations update**
As a result of the Company's participation in the APA 2015 licensing round, five new licences were awarded in February 2016. The awards were 20% interest in licence PL815, 30% interest in licence PL818, 50% interest in licence PL760C, 20% interest in licence PL841 and 20% interest in licence PL850.

Lime took part in one exploration well in 2016. Drilling of the Fosen prospect in licence PL544, located on the Utsira High in the North Sea, was started in January 2016. The operation was completed in March 2016 and the well was classified as dry.

Feasibility studies have been ongoing on the Rolvsnes discovery on PL338C (Edvard Grieg South). A conclusion on the way forward is expected during 1H 2017. In a qualified-persons report on the resource estimate conducted by Gaffney, Cline & Associates on behalf of Lime the total gross resource estimate is reported to be 12 – 92 million barrels of oil equivalent.

Due to many drill or drop decisions during 2016, many of Lime's licences were in the process of being relinquished at year end. At the date of signing this report, the relinquishment process is finalized for all the licences concerned except for one licence PL410. The licences to be relinquished are PL410, PL544, PL616, PL707, PL708, PL760/B/C and PL770.

**Subsequent Events**
There were no events or transactions to report subsequent to 31 December 2016 other than receiving notice from the Ministry of Petroleum and Energy for relinquishment of licences PL707, PL708, PL760/B/C and PL770, and the authorities' approval to extend the PL762 Drill-or-Drop decision with one year, during first quarter of 2017.
Final approval from Ministry of Petroleum and Energy is still pending for relinquishment of PL410, and for 2-years extension of the Drill-or-Drop decision for PL815. Approvals are expected obtained during second quarter 2017.

At the date of signing this report, the company had interests in six concessions.

**REX Virtual Drilling**
Lime has a licence agreement with Rex Technology Management Ltd. granting access to use the proprietary technology Rex Virtual Drilling (RVD). The RVD method enables analyzing seismic data in a new way, improving the success rate compared to traditional methods. Rex Technology Management Ltd. is a wholly owned subsidiary of Rex International Investments Pte. Ltd.

**Management and Board of Directors**
Ivar Aarseth retired as CEO from 1 November 2016. He was replaced by Terje Hagevang who has since May 2014 been employed as the exploration manager of the company. Terje Hagevang will continue to cover these responsibilities together with the position as CEO. Nils Jørgen Heilemann left the Board as Director in January 2016 and was replaced by Peter Nikolaus Eckhard Oehms in March 2016. In April 2016 Hans Ove Leonard Lidgren was replaced as Director by Jarle Erik Sandvik. At the same time Svein Helge Kjellesvik was appointed as new Chairman.

At the signing of this report the Board of Directors consist of the following members:

| | |
|---|---|
| Svein Helge Kjellesvik | Chairman |
| Lina Lidgren Berntsen | Director |
| Peter Eckhard Oehms | Director |
| Jarle Erik Sandvik | Director |

**HSE and equal opportunity**

At the end of 2016, the company had 11 employees of which three female. In addition, two persons were temporarily employed on 100% basis through consultancy contracts. Accounting, tax, legal and IT services are outsourced and contracted from professional service companies. Beyond this capacity, the company has acquired consultancy services from several companies typically on short-term contracts during 2016.

The company practices equal opportunity between the genders with respect to employment, wages and professional development. Factors determining wages are work area, seniority, skills and education. Vacant positions have been, and are sought to be, filled on a gender-neutral basis. The company is in compliance with the provisions of the Norwegian Equal Opportunities Act. There is one female member represented on the Board of Directors.

The working environment in the company is considered good and continuous efforts are made for further improvements. Absence due to illness during 2016 was 2.2% compared to 1.4% in 2015. None of the company's employees have been injured or caused damage to property of any kind.

The Company is located in modern premises at Skøyen, close to the Oslo city center.

**External environment**

The operations of the company could potentially pollute the external environment. The company together with its parent company and Joint Venture partners work actively on measures that can reduce any negative impact on the environment.

**Annual Financial Statements (2015 figures in brackets)**

Pursuant to § 3-3 of the Norwegian Accounting Act, the Board of Directors confirms that the conditions for continued operations as a going concern are present for the company and that the annual financial statements for 2016 have been prepared under such assumptions.

As for 2015, the company had no operating income in 2016. Operating expenses were NOK 422.2 million (NOK 223.7 million). Of this, the net impairment due to decisions to relinquish licences was NOK 363.0 million (NOK 151.7 million).

Net financial items amounted to NOK 13.1 million (NOK 11.2 million). The increase of financial cost is primarily due to interest and commitment fee related to the exploration financing facility. By the end of 2016, total loans drawn under the facility was NOK 110 million (NOK 300 million). NOK 440 million worth of loans was repaid in November 2016.

Loss before taxes was NOK 435.3 (NOK 234.9 million). Tax income amounted to NOK 302.2 million (NOK 173.0 million). The Company's tax refund related to the 2016 activity, is calculated to NOK 182.2 million at year end (NOK 467.9 million). The tax refund related to 2015 was received in November 2016, and amounted to NOK 470.5 million (NOK 118.6 million) including interest.

Annual loss was NOK 133.2 million (NOK 61.9 million).

**Capitalized cost**

During the year, the company capitalized costs worth NOK 191.3 million (NOK 460.9 million) primarily related to exploration activity, of which the biggest part was attributable to the drilling of the Fosen prospect in licence PL544.

**Financing**

The Company had one capital injection during 2016. The capital injection which amounted to USD 6.3 million was made through issuing 50 million shares at subscription price of USD 0.126 per share. The capital increase was resolved in an extraordinary general assembly held on 30 March 2016 and registered in the Register of Business Enterprise 18 April 2016. All the shares were subscribed by Rex International Investment Pte. Ltd.

After completion of the share capital increase, the total share capital was NOK 130,320,000.

On 3 June 2016, Rex International Investments Pte. Ltd. sold 13,032,000 of its shares in Lime to Schroder & Co Banque SA. The amount of shares represented 10% shareholding in Lime.

After the capital injection and subsequent sale of shares Rex International Investments Pte. Ltd. holds 87.84% of the shares in the Company.

On 16 December 2016, the company signed an amendment agreement with Skandinaviska Enskilda Banken AB to extend the duration of the Revolving Exploration Financing Facility until end 2018. At the same time, the size of the facility amount was reduced from NOK 700 million to NOK 400 million reflecting an expected decreased activity level the coming two years.

**Risk**

The Company is not exposed to particular risk factors other than those that are common for oil companies in the exploration phase.

Lime is to some extent exposed to exchange rate fluctuations as exploration operations are partly in foreign currency, primarily in USD. The Company is also exposed to changes in market interest rates, as its financing facility has variable rates terms (NIBOR).

The Company's financing needs are continuously monitored in order to ensure appropriate funding. For further information refer to Financial Risk Management described in Note 15.

**Outlook**

The Board of Directors and Management are positive in their outlook for E&P activity on the Norwegian Continental Shelf, and believe the Company to be well positioned for further growth. The Company has tightened its licence portfolio during 2016 to comprise six high graded licences concentrated in core areas. Our focus on the Norwegian Continental Shelf will be continued and the Company will look for further possibilities to expand its activity and actively contribute in moving the Edvard Grieg South discovery towards development and production.

The Board of Directors of Lime Petroleum Norway AS

Oslo, 9 May 2017

Svein Helge Kjellesvik
Chairman

Jarle Erik Sandvik
Director

Lina Lidgren Berntsen
Director

Peter Eckhard Oehms
Director

Terje Hagevang
CEO

# Income Statement

| *(Amounts in TNOK)* | **Note** | **2016** | **2015** |
|---|---|---|---|
| Operating income | | | |
| Exploration expenses | 4 | -392 813 | -196 345 |
| Payroll and related cost | 5 | -17 385 | -18 593 |
| Depreciation and amortisation | 10 | -410 | -486 |
| Other operating expenses | 6 | -11 638 | -8 243 |
| **Operating profit (loss)** | | **-422 246** | -223 668 |
| Finance income | 7 | 3 035 | 1 703 |
| Finance costs | 7 | -16 131 | -12 913 |
| **Net financial items** | | **-13 096** | -11 210 |
| **Profit (loss) before income tax** | | **-435 342** | -234 878 |
| Income tax credit | 8 | 302 173 | 173 018 |
| **Profit (loss) for the year** | | **-133 169** | -61 860 |

# Statement of comprehensive income

| *(Amounts in TNOK)* | **Note** | **2016** | **2015** |
|---|---|---|---|
| **Profit (loss) for the year** | | -133 169 | -61 860 |
| **Other comprehensive income, net of tax:** | | | |
| **Total comprehensive income for the year** | | -133 169 | -61 860 |

# Balance Sheet as at 31 December

| *(Amounts in TNOK)* | Note | 2016 | 2015 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Exploration and evaluation assets | 9 | 269 606 | 441 314 |
| Property, plant and equipment | 10 | 494 | 688 |
| Intangible asset | 10 | 641 | 1 161 |
| **Total non-current assets** | | **270 741** | 443 163 |
| | | | |
| **Current assets** | | | |
| Prepayments and other receivables | 11 | 10 707 | 52 337 |
| Tax receivable refund tax value exploration expenses | 8,14 | 182 204 | 467 854 |
| Cash and cash equivalents | 12 | 28 325 | 43 951 |
| **Total current assets** | | **221 236** | 564 142 |
| **Total assets** | | **491 977** | 1 007 305 |
| | | | |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 13 | 130 320 | 80 320 |
| Other paid-in capital | | 274 291 | 271 160 |
| Uncovered loss | | -195 029 | -61 860 |
| **Total equity** | | **209 582** | 289 620 |
| | | | |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 8 | 154 616 | 275 041 |
| **Total non-current liabilities** | | **154 616** | 275 041 |
| | | | |
| **Current liabilities** | | | |
| Interest-bearing loans and borrowings | 14 | 107 650 | 297 082 |
| Trade creditors | 15 | 4 634 | 3 385 |
| Other current liabilities | 16 | 15 494 | 142 178 |
| **Total current liabilities** | | **127 779** | 442 644 |
| **Total liabilities** | | **282 395** | 717 685 |
| **Total equity and liabilities** | | **491 977** | 1 007 305 |

The Board of Directors of Lime Petroleum Norway AS

Oslo, 9 May 2017

Svein Helge Kjellesvik
Chairman

Jarle Erik Sandvik
Director

Lina Lidgren Berntsen
Director

Peter Eckhard Oehms
Director

Terje Hagevang
CEO

# Statement of changes in equity

| (Amounts in TNOK) | Share capital | Other paid in capital | Uncovered loss | Total equity |
|---|---|---|---|---|
| Equity at 1 January 2015 | 182 000 | | -30 851 | 151 149 |
| Profit (loss) for the year | | | -61 860 | -61 860 |
| Other comprehensive income for the year | | | | |
| *Total comprehensive income for the year* | | | -61 860 | -61 860 |
| Shares issued before partial delection of shares | 200 000 | | | 200 000 |
| Share-based payment | | 331 | | 331 |
| Write-down nominal value | -301 680 | 270 829 | 30 851 | |
| Partial rwedemption of shares, repaid to shareholder | -77 400 | | | -77 400 |
| Shares issued after partial redemption of shares | 77 400 | | | 77 400 |
| **Equity at 31 December 2015** | **80 320** | **271 160** | **-61 860** | **289 620** |
| Equity at 1 January 2016 | 80 320 | 271 160 | -61 860 | 289 620 |
| Profit (loss) for the year | | | -133 169 | -133 169 |
| Other comprehensive income for the year | | | | |
| *Total comprehensive income for the year* | | | -133 169 | -133 169 |
| Share-based payment | | 445 | | 445 |
| Shares issued in 2016 | 50 000 | 2 686 | | 52 686 |
| **Equity at 31 December 2016** | **130 320** | **274 291** | **-195 029** | **209 582** |

# Cash flow statement

| *(Amounts in TNOK)* | Note | 2016 | 2015 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Profit (loss) before income tax | | -435 342 | -234 878 |
| Adjustments: | | | |
| Tax refunded | 8 | 467 615 | 117 187 |
| Depreciation | 10 | 929 | 1 069 |
| Impairment exploration assets | 9 | 362 986 | 151 716 |
| Changes in trade creditors | | 1 250 | -5 022 |
| Changes in other current receivables and liabilities | | -81 640 | 91 205 |
| Net cash flow from operating activities | | 315 798 | 121 277 |
| **Cash flow from investing activities** | | | |
| Investment of exploration and evaluation assets | | -191 494 | -551 217 |
| Purchase of property, plant and equipment | 10 | -215 | -1 607 |
| Net cash flow from investing activities | | -191 709 | -552 824 |
| **Cash flow from financing activities** | | | |
| Funds drawn current borrowings, net of transaction costs incurred | | 247 600 | 296 150 |
| Repayment of current borrowings | | -440 000 | -65 000 |
| Proceeds from share issues | 13 | 52 686 | 200 000 |
| Net cash flow from financing activities | | -139 714 | 431 150 |
| **Net change in cash and cash equivalents** | | **-15 626** | **-397** |
| Cash and cash equivalents at 1st January 2016 / 2015 | | 43 951 | 44 348 |
| **Cash and cash equivalents at 31st of December** | | **28 326** | **43 951** |
| Interest paid | | 12 722 | 7 510 |

# Note 1 General information

The Financial statements of Lime Petroleum Norway AS were approved by the board of directors and CEO on 9 May 2017.

Lime Petroleum Norway AS is a private limited company incorporated and domiciled in Norway, with its main office in Oslo.

The Company was incorporated 14 August 2012.

The Company's only business segment is exploration for oil and gas on the Norwegian continental shelf.

# Note 2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

**Basis for preparation**
The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and in accordance with the additional requirements following the Norwegian Accounting Act.

**Foreign currency**
**Transactions in foreign currency**
The company's functional and presentation currency is Norwegian kroner (NOK).

**Functional currency and presentation currency**
Foreign currency transactions are translated into NOK using the exchange rates at the transaction date. Monetary balances in foreign currencies are translated into NOK at the exchange rates on the date of the balance sheet. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

**Property, plant and equipment**
Property, plant and equipment are stated at cost less accumulated depreciation and any impairment charges. Depreciations are calculated on a straight line basis over the assets expected useful life and adjusted for any impairment charges. Expected useful lives of long-lived assets are reviewed annually and where they differ from previous estimates, depreciation periods are changed accordingly.

Property, plant and equipment are reviewed for potential impairment whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount.

**Intangible assets**
Exploration costs for oil and gas properties.

The Company uses a "modified full cost method" to account for exploration costs. All exploration costs directly related to areas where Lime holds an interest is capitalized. As a rule, each licence constitutes one cost area, but in areas where two or more licences have boundaries against each other, it may be natural to view multiple licences together as a separate cost area. A cost area will be tested for impairment if facts and circumstances suggest that the carrying amount of the asset(s) on the area may exceed its recoverable amount. Typical facts and circumstances that would indicate that a cost area should be tested for impairment are:

- the right to explore in the specific area has expired or will expire in the near future and is not expected to be renewed;

- further exploration in the specific area is neither budgeted nor planned;

- commercially viable reserves have not been discovered and the company plans to discontinue activities in the specific area, and

- existing data shows that the carrying amount of the asset(s) will not be recovered in full through development activity.

**Interests in joint arrangements**
The Company applies IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor.

The Company has assets in licences which are not incorporated entities. All of these are related to licences on the Norwegian Continental Shelf. The company has classified these joint arrangements as joint operations and accounts for these assets (oil and gas licences) applying the proportionate consolidation method by accounting for its share of the assets' income, expenses, debt and cash flow under the respective items in the company's financial statements.

**Leases (as lessee)**
*Financial leases*
Leases where the Company assumes most of the risk and rewards of ownership, is classified as financial leases. The Company does not have any such leases.

*Operating leases*
Leases in which most of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

### Receivables
Receivables are initially recognised at fair value plus any transaction costs. The receivables are subsequently carried at amortised cost using the effective interest method.

### Cash and cash equivalents
Cash and the equivalents include cash on hand, deposits with banks and other short-term highly liquid investments with original maturities of three months or less.

### Borrowings
All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of transaction/issue costs associated with the borrowing. After initial recognition, interests-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Any difference between the consideration received net of transaction/issue costs associated with the borrowing and the redemption value, is recognised in the income statement over the term of the loan.

### Taxes
Income taxes for the period comprise tax payable, refundable tax from refund tax value of exploration expenses and changes in deferred tax.

Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are calculated on the basis of existing temporary differences between the carrying amounts of assets and liabilities in the financial statement and their tax bases, together with tax losses carried forward at the balance sheet date. Deferred tax assets and liabilities are calculated based on the tax rates and tax legislation that are expected to exist when the assets are realised or the liabilities are settled, based on the tax rates and tax legislation that have been enacted or substantially enacted on the balance sheet date. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that is no longer probable that the deferred tax asset can be utilised. Deferred tax assets and liabilities are not discounted. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

### Provisions
A provision is recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable (i.e. more likely than not) that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation. The increase in the provision due to passage of time is recognised as finance cost.

The Company recognises a provision and an expense for severance payment when there exists a legal obligation to pay severance payment.

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

#### Contingent liabilities
Contingent liabilities are not recognised in the financial statements. Significant contingent liabilities are disclosed, with the exception of contingent liabilities where the probability of the liability occurring is remote.

#### Segment reporting
The Company's only business segment is exploration for oil and gas on the Norwegian continental shelf. Based on this no segment note is presented and this is in accordance with management's reporting.

#### Cost of equity transactions
Transaction costs directly linked to an equity transaction are recognised directly in equity, net after deducting tax.

### Cash flow statement
The cash flow statement is prepared by using the indirect method.

### Events after the balance sheet date
The financial statements are adjusted to reflect events after the balance sheet date that provide evidence of conditions that existed at the balance sheet date (adjusting events). The financial statements are not adjusted to reflect events after the balance sheet date that are indicative of conditions that arose after the balance sheet date (non-adjusting events). Non-adjusting events are disclosed if significant.

### IFRS and IFRIC issued but not adopted by the Company
New standards and amendments to standards and interpretations that are effective for annual periods beginning after 1 of january 2016 have not had a significant effect on the financial statements of the company. Forthcoming requirements that are relevant for the Company is not expected to have a significant effect on the financial statement.

# Note 3 Financial risk management

**Financial risks**
Exploration for oil and gas involves a high degree of risk, and the Company is subject to the general risk factors pertaining to this business, such as (i) volatility of oil and gas prices, (ii) uncertainty pertaining to estimated oil and gas reserves, (iii) operational risk related to oil and gas exploration and (iv) volatility in exchange rates. Furthermore, only few prospects that are explored are ultimately developed into production.

Furthermore, the Company is exposed to certain types of financial risks. Management involves receivables, loans, accounts payable and drawing rights to financial institutions. The business activities of the company involve exposure to credit risk, interest rate risk, liquidity risk and currency risk.

**Critical accounting estimates and judgements**
The preparation of the financial statements in accordance with IFRS, requires management to make judgements, use estimates and assumptions that affect the reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are considered to be reasonable under the circumstances. The estimates and underlying assumptions are reviewed on an ongoing basis.

Estimates and assumptions which represent a considerable risk for material changes in carrying amounts of assets and liabilities during the next fiscal year, are presented below.

*a)Taxes*
Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income.

The Norwegian entities are subject to the Norwegian oil taxation regime which involves an allocation of indirect costs to exploration expenses as items allowable for tax deductions and subsequent tax refunds. The allocation and the calculated tax receivable is based on judgments and understanding by the company regarding items allowable for tax deduction, and the view may differ from the Norwegian Authorities' practice in the final settlement of the tax refund.

Judgement is also required in determining whether deferred income tax assets are recognised in the statement of financial position. Deferred income tax assets, including those arising from un-utilised tax losses, require management to assess the likelihood that the company will generate sufficient taxable earnings in future periods, in order to utilise recognised deferred income tax assets. See note 8.

**Critical judgements in applying the Company's accounting policies**
Management has made judgements also in the process of applying the Company's accounting policies. Such judgements with the most significant effect on the amounts recognised in the financial statements are presented in the following:

*a) Accounting policy for exploration expenses*
The Company uses a "modified full cost method" to account for exploration costs. All exploration costs directly related to areas where the Company holds an interest are initially capitalised in cost centres by well, field or exploration area, as appropriate.

The application of the Company's accounting policy for exploration and evaluation expenditure requires judgement in determining whether it is likely that future economic benefits are likely either from future exploitation or sale or where activities have not reached a stage which permits a reasonable assessment of the existence of reserves. These estimates directly impact the point of deferral of exploration and evaluation expenditure. The deferral policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular whether an economically viable extraction operation can be established. Any such estimates and assumptions may change as new information becomes available. Circumstances may suggest that the carrying amount may exceed the recoverable value of the asset, and such assessment of circumstances involves judgment as to likely future commerciality of the asset and also when such commerciality should be determined.

# Note 4 Exploration Expenses

| *(Amounts in TNOK)* | 2016 | 2015 |
|---|---|---|
| Expensed capitalized exploration [1] | 362 986 | 151 716 |
| Direct seismic costs and field evaluation | 5 190 | 10 489 |
| G&G costs, Virtual Drilling | 21 179 | 21 783 |
| Consultants exploration | 6 743 | 10 687 |
| Other operating exploration expenses [2] | -3 285 | 1 671 |
| **Total exploration expenses** | **392 813** | **196 345** |

[1] Expensed capitalized exploration is related to relinquishment of the licences PL410, PL544, PL616, PL707, PL708, PL760 and PL770.

[2] Other operating exploration expenses includes refunded licence costs related to licences relinquished prior to 2016.

# Note 5 Payroll and related cost

| *(Amounts in TNOK)* | 2016 | 2015 |
|---|---|---|
| Salaries | 15 783 | 15 813 |
| Consultancy fees, hours invoiced to other companies | -2 783 | -1 011 |
| Social security | 2 393 | 2 421 |
| Pension costs | 642 | 545 |
| Share-based payment | 445 | 331 |
| Other employee related expenses | 905 | 494 |
| **Total** | **17 385** | **18 593** |
| Average number of employees | 11 | 11 |

**Remuneration to board of directors and management:**
See information in note 17 Related party disclosure regarding remuneration of key management and note 13 Share capital regarding share-based bonus program for key management.

**Pensions**
The Company has a defined contribution pension plan for its employees which satisfies the statutory requirements in the Norwegian law on required occupational pension («lov om obligatorisk tjenestepensjon»).

**Share-based payment**
The Company has a share based payment plan for key employees. These employees have been granted options that vest over a time frame of two years. The options expire three years subsequent to first possible date of exercise.

| *Options (Amounts in TNOK)* | Total granted and outstanding | Vested |
|---|---|---|
| **2016** | | |
| At 1 January | 378 | 173 |
| Granted | 917 | |
| Vested | | 571 |
| Forfeited | | |
| At 31 December | 1295 | 745 |

| *Options ((Amounts in TNOK)* | **Total granted and outstanding** | **Vested** |
|---|---|---|
| **2015** | | |
| At 1 January | | |
| Granted | 378 | |
| Vested | | 173 |
| Forfeited | | |
| At 31 December | 378 | 173 |

Weighted average exercise price is NOK 3,42.

# Note 6 Other operating expenses

**Other operating expenses include:**

| *(Amounts in TNOK)* | **2016** | **2015** |
|---|---|---|
| Offices rental and other lease expenses | 1 188 | 1 108 |
| Travelling expenses | 723 | 611 |
| Consultant's and other fees [1] | 7 719 | 4 594 |
| Other administrative expenses | 2 007 | 1 931 |
| **Total** | **11 638** | **8 243** |

[1] Fees includes payments to related parties. See note 17 for further information.

**Remuneration to auditor is allocated as specified below:**

| *(Amounts in TNOK)* | **2016** | **2015** |
|---|---|---|
| Audit | 326 | 455 |
| Attestations | 147 | 216 |
| Other assistance | 157 | 192 |
| **Total, excl. VAT** | **630** | **863** |

# Note 7 Finance income and costs

| *(Amounts in TNOK)* | **2016** | **2015** |
|---|---|---|
| Interest income | 3 035 | 1 703 |
| Other finance income | | |
| **Total finance income** | **3 035** | **1 703** |

**Finance costs:**

| *(Amounts in TNOK)* | **2016** | **2015** |
|---|---|---|
| Interest expenses loans and borrowings | 15 576 | 10 697 |
| Other interest expenses | | 308 |
| Net foreign exchange effects | 553 | 1 908 |
| Other finance costs | 2 | |
| **Total finance costs** | **16 131** | **12 913** |

# Note 8 Tax

**Specification of income tax:**

| *(Amounts in TNOK)* | 2016 | 2015 |
|---|---|---|
| Calculated refund tax value of exploration costs this year | 182 204 | 467 854 |
| Of this refund not recognised in income statement (acquisition of licences recognised net of tax) | -216 | -83 525 |
| Correction refund previous years | -239 | |
| Change deferred tax | 120 425 | -211 311 |
| **Total income tax credit** | **302 173** | **173 018** |

Oil-exploration companies operating on the Norwegian Continental Shelf may claim a 78 % refund of their exploration costs limited to taxable losses of the year. The refund is paid out in November the following year.

**Specification of tax effects on temporary differences, tax losses carried forward and deferred tax:**

| *(Amounts in TNOK)* | 2016 | 2015 |
|---|---|---|
| Property, plant and equipment | 325 | 126 |
| Capitalised exploration and licence costs | -196 360 | -300 856 |
| Non-current borrowings | -564 | -730 |
| Tax losses carried forward, onshore | 180 | 188 |
| Tax losses carried forward, offshore 24% basis (25% in 2015) | 19 077 | 12 574 |
| Tax losses carried forward, 54% basis (53% in 2015) | 22 905 | 13 845 |
| Deferred tax liability (-) / tax asset (+) | -154 436 | -274 853 |
| *Not capitalised deferred tax asset (valuation allowance)* | -180 | -188 |
| **Deferred tax liability (-) / tax asset (+) in balance sheet** | **-154 616** | **-275 041** |

**Change in deferred taxes:**

| *Correction refund previous years, assessed but not settled* | 2016 | 2015 |
|---|---|---|
| Deferred taxes recorded in income statement | 120 425 | -211 311 |
| Deferred taxes recorded in balance sheet on acquisition of licences | | 6 816 |
| **Total change in deferred taxes** | **120 425** | **-204 495** |

Deferred tax is calculated based on tax rates applicable on the balance sheet date. Ordinary income tax is 25% (24% in 2017), to which is added a special tax for oil and gas companies at the rate of 53% (54% in 2017), giving a total tax rate of 78%.

Companies operating on the Norwegian Continental Shelf under the offshore tax regime can claim the tax value of any unused tax losses or other tax credits related to its offshore activities to be paid in cash (including interest) from the tax authorities when operations cease. Deferred tax assets that are based on offshore tax losses carried forward are therefore normally recognised in full.

**Reconciliation of effective tax rate:**

| *(Amounts in TNOK)* | 2016 | 2015 |
|---|---|---|
| Profit (loss) before tax | -435 342 | -234 878 |
| Expected income tax credit 78% | 339 567 | 183 205 |
| Adjusted for tax effects (25%-78%) (27%-78% in 2015) of the following items: | | |
| Permanent differences | -519 | -47 |
| Finance items | -6 935 | -6 524 |
| Adjustment previous years and other | -21 | 125 |
| Effect of new tax rates on deferred tax | -341 | -415 |
| *Expensed acquisition of licence net of tax* | -29 578 | -3 325 |
| **Total income tax credit** | **302 173** | **173 018** |

# Note 9 Investments in Oil and Gas licences

| *(Amounts in TNOK)* | **2016** | **2015** |
|---|---|---|
| **Cost:** | | |
| At 1 January | 604 749 | 143 874 |
| Additions | 191 278 | 460 875 |
| Disposals | | |
| Cost at 31 December | 796 027 | 604 749 |
| | | |
| *Amortisation and impairment losses* | | |
| At 1 January | 163 435 | 11 720 |
| Amortisation this year | | |
| Impairment this year | 362 986 | 151 716 |
| Disposals | | |
| Accumulated amortisation and impairment at 31 December | 526 421 | 163 435 |
| **Carrying amount at 31 December** | **269 606** | **441 314** |

| **Licence portfolio** | **31.12.2016** | **31.12.2015** |
|---|---|---|
| | Lime's share | Lime's share |
| PL 338 C | 30.0 % | 30.0 % |
| PL 410 | 30.0 % | 30.0 % |
| PL 707 | 10.0 % | 10.0 % |
| PL 708 | 10.0 % | 10.0 % |
| PL 760 | 50.0 % | 50.0 % |
| PL 760 B | 50.0 % | 50.0 % |
| PL 760 C | 50.0 % | 0.0 % |
| PL 762 | 20.0 % | 20.0 % |
| PL 770 | 20.0 % | 20.0 % |
| PL 815 | 20.0 % | 0.0 % |
| PL 818 | 30.0 % | 0.0 % |
| PL 841 | 20.0 % | 0.0 % |
| PL 850 | 20.0 % | 0.0 % |

# Note 10 Property, plant, equipment and intangible assets

| *(Amounts in TNOK)* | **Fixtures and data equipment** | **Intangible asset (software)** |
|---|---|---|
| **2016** | | |
| | | |
| **Cost:** | | |
| At 1 January 2016 | 1 642 | 2 288 |
| Additions | 215 | |
| Disposals | | |
| Cost at 31 December 2016 | 1 857 | 2 288 |
| | | |
| Depreciation and impairment: | | |
| At 1 January 2016 | -953 | -1 127 |
| Depreciation this year [1)] | -410 | -519 |
| Impairment this year | | |
| Disposals | | |
| Accumulated amortisation and impairment at 31 December 2016 | -1 363 | -1 646 |
| **Carrying amount at 31 December 2016** | **494** | **642** |

[1)] TNOK 519 of depreciation of software is included in Exploration expenses.

| *(Amounts in TNOK)* | | |
|---|---|---|
| **2015** | | |
| | | |
| **Cost:** | | |
| At 1 January 2015 | 1 585 | 738 |
| Additions | 57 | 1 550 |
| Disposals | | |
| Cost at 31 December 2015 | 1 642 | 2 288 |
| | | |
| Depreciation and impairment: | | |
| At 1 January 2015 | -486 | -526 |
| Depreciation this year [2)] | -467 | -602 |
| Impairment this year | | |
| Disposals | | |
| Accumulated amortisation and impairment at 31 December 2015 | -953 | -1 127 |
| **Carrying amount at 31 December 2015** | **688** | **1 161** |

[2)] TNOK 583 of depreciation of software is included in Exploration expenses.

| | | |
|---|---|---|
| Economic life | 3-5 years | 3 years |
| Depreciation method | linear | linear |

# Note 11 Prepayments and other receivables

| *(Amounts in TNOK)* | **2016** | **2015** |
|---|---|---|
| Prepaid expenses | 1 552 | 3 787 |
| VAT receivables | 369 | 550 |
| Receivables from group companies | 1 695 | |
| Working capital and overcall, joint venture | 6 699 | 47 732 |
| Other short term receivables | 392 | 269 |
| **Total** | **10 707** | **52 337** |

# Note 12 Cash and cash equivalents

| *(Amounts in TNOK)* | **2016** | **2015** |
|---|---|---|
| Bank deposits | 28 325 | 43 951 |
| **Total cash and cash equivalents** | **28 325** | **43 951** |
| Of this: | | |
| Restricted cash for withheld taxes from employees salaries | 865 | 1 291 |
| Restricted cash for deposit office lease | 740 | 740 |
| Restricted cash for interest reserve on bank loan | 6 222 | 9 507 |

# Note 13 Share capital and shareholder information

| ***Movements in share capital (amounts in NOK)*** | **Number of shares** | **Share capital** |
|---|---|---|
| Share capital at 1 January 2015 | 1 820 000 | 182 000 000 |
| Capital increase in 2015 (before reduction of nominal value) | 2 000 000 | 200 000 000 |
| Write-down nominal value from NOK 100 to NOK 86 | | -53 480 000 |
| Partial redemption of shares, repaid to shareholder | -900 000 | -77 400 000 |
| Write-down nominal value from NOK 86 to NOK 1 | | -248 200 000 |
| Shares issued with nominal value of NOK 1 | 77 400 000 | 77 400 000 |
| **End balance at 31 December 2015** | **80 320 000** | **80 320 000** |
| | | |
| Share capital at 1 January 2016 | 80 320 000 | 80 320 000 |
| Capital increase in 2016 | 50 000 000 | 50 000 000 |
| **End balance at 31 December 2016** | **130 320 000** | **130 320 000** |

The share capital is denominated in NOK, and the nominal value per share as of 31 December 2016 was NOK 1. All issued shares are of equal rights.

The Company may remunerate employees in the form of options or other remuneration linked to the Company's shares or share value. Such employees participate in the Company's share-based bonus program.

| ***Shareholders as of 31 December 2016*** | **Shares** | **Ownership** |
|---|---|---|
| Lime Petroleum Plc | 2 820 000 | 2.2 % |
| Schroder & Co Banque SA | 13 032 000 | 10.0 % |
| Rex International Investments Pte. Ltd | 114 468 000 | 87.8 % |
| **Total number of shares** | **130 320 000** | **100.0 %** |

Rex International Investments Pte. Ltd owns a total of 89,2 % of Lime Petroleum Norway AS, including indirectly 1,4% through ownership of 65% of Lime Petroleum Plc.

Rex International Investments Pte. Ltd is a wholly owned subsidiary of Rex International Holding Ltd. Board member Svein Helge Kjellesvik is shareholder in Rex International Holding Ltd.

# Note 14 Interest-bearing loans and borrowings

| *(Amounts in TNOK)* | **Presentation in balance** | **2016** | **2015** |
|---|---|---|---|
| Credit facility, nominal amount drawn | Current | 110 000 | 300 000 |
| Capitalised arrangement fee (subject to amortisation) | Current | -2 350 | -2 919 |
| **Carrying amount** | | **107 650** | **297 082** |

**Credit facility**
The Company has a Revolving Exploration Financing Facility agreement of NOK 400 000 000 with Skandinaviska Enskilda Banken AB (SEB). The facility runs until December 2018, but the debt as at 31 December shall be repaid in December next year following receipt of tax refund (ref note 8). The debt is therefore classified as current liability. The agreed interest rate is three month NIBOR + 1.5 %.

**Assets pledged as security**
The credit facility mentioned above is for the lender secured by a first priority assignment of the tax refunds, first priority charge over the bank accounts, and a first priority assignment of insurances.

**Guarantee**
Rex International Investments Pte. Ltd has provided a parent company guarantee to the Ministry of Petroleum and Energy on basis of the Norwegian Petroleum Act sec. 10-7.

# Note 15 Financial instruments

**Financial instruments by category**

*(Amounts in TNOK)*

**At 31 December 2016**

| **Financial assets** | **Loans and receivables** | **Total carrying amount** |
|---|---|---|
| Other receivables [1] | | |
| Cash and cash equivalents | 28 325 | 28 325 |
| **Total** | **28 325** | **28 325** |

[1] Prepayments and VAT receivables are not included.

| **Financial liabilities** | **Amortized cost** | **Total carrying amount** |
|---|---|---|
| Borrowings, long term | | |
| Borrowings, short term | 107 650 | 107 650 |
| Trade creditors | 4 634 | 4 634 |
| Other current liabilities [1] | 1 425 | 1 425 |
| **Total** | **113 709** | **113 709** |

[1] Public duties payable and accruals are not included.

**At 31 December 2015**

| Financial assets | Loans and receivables | Total carrying amount |
|---|---|---|
| Other receivables [1] | | |
| Cash and cash equivalents | 43 951 | 43 951 |
| **Total** | **43 951** | **43 951** |

[1] Prepayments and VAT receivables are not included.

| Financial liabilities | Amortized cost | Total carrying amount |
|---|---|---|
| Borrowings, long term | | |
| Borrowings, short term | 297 082 | 297 082 |
| Trade creditors | 3 385 | 3 385 |
| Other current liabilities [1] | 2 534 | 2 534 |
| **Total** | **303 000** | **303 000** |

[1] Public duties payable and accruals are not included

### Fair value of financial instruments

It is assessed that the carrying amounts of financial instruments recognized at amortized cost in the financial statements approximate their fair values. This also relates to long term borrowings since the interest conditions are floating rate.

## Financial risk management

**Overview**

The Company has some exposure to risks from its use of financial instruments, including credit risk, liquidity risk, interest rate risk and currency risk. This note presents information about the Company's exposure to each of the above mentioned risks, and the Company's objectives, policies and processes for managing such risks. At the end of this note, information regarding the Company's capital management is provided.

**Market risk from financial instruments**

**a) Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's interest risk arises from its credit facility which has variable rates terms. As at 31 December 2016, if the interest rate had been 0,5% higher, the net loss before tax would have been TNOK 550 higher (TNOK 1 500 in 2015).»

**b) Foreign currency risk**

The Company has limited exposure to currency risk from assets and liabilities recognised as at 31 December 2016, through trade payables denominated in USD. An increase in the exchange rate of USD of 10 % would have resulted in a finance loss pre tax of TNOK 437 (TNOK 338 in 2015).

**Credit risk**

The carrying amounts of financial assets presented above represent the Company's maximum credit exposure. The counterparty to the cash and cash equivalents and other financial assets are large banks with solid credit ratings. The Company monitors the credit ratings of its main counterparties on a regular basis.

**Liquidity risk**

Liquidity risk is the risk of being unable to pay financial liabilities as they fall due. The Company's approach to managing liquidity risk is to ensure that it will always have sufficient liquidity to meet its financial liabilities as they fall due, under normal as well as extraordinary circumstances, without incurring unacceptable losses or risking damage to the Company's reputation. Prudent liquidity risk management implies maintaining sufficient cash and the availability of appropriate funding.

The following table details the contractual maturities for the Company's financial liabilities. The tables includes amounts for both principal and interest payments. The contractual amounts were estimated based on closing exchange rate at balance sheet date.

**At 31 December 2016**

| *(Amounts in TNOK)* | **Less than 3 months** | **3 to 12 months** | **1 to 5 years** | **Total** |
|---|---|---|---|---|
| Borrowings, short term | 734 | 112 203 | | 112 937 |
| Trade creditors and other short term liabilities | 6 059 | | | 6 059 |
| **Total liabilities** | **6 794** | **112 203** | | **118 996** |

**At 31 December 2015**

| *(Amounts in NOK)* | **Less than 3 months** | **3 to 12 months** | **1 to 5 years** | **Total** |
|---|---|---|---|---|
| Borrowings, short term | 2 850 | 308 550 | | 311 400 |
| Trade creditors and other short term liabilities | 4 845 | 1 073 | | 5 918 |
| **Total liabilities** | **7 695** | **309 623** | | **317 318** |

**Capital management**
A key objective in relation to capital management is to ensure that the Company maintains a sufficient capital structure in order to support its business development and to maintain a strong credit rating. The Company evaluates its capital structure in light of current and projected cash flows, potential new business opportunities and the Company's financial commitments. In order to maintain or adjust the capital structure, the Company may issue new shares or obtain new loans.

# Note 16 Other current liabilities

| *(Amounts in TNOK)* | **2016** | **2015** |
|---|---|---|
| Public duties payable | 1 417 | 2 122 |
| Salary and vacation payable | 1 425 | 2 534 |
| Working capital and undercall, joint venture | 3 455 | 116 556 |
| Other accruals for incurred costs | 9 197 | 20 966 |
| **Total** | **15 494** | **142 178** |

# Note 17 Related party disclosure

*(Amounts in TNOK)*

**a) Purchases from related parties**

| Purchase of services from | Description of services | 2016 | 2015 |
|---|---|---|---|
| Rex International Holding Ltd [1)] | Consulting services | 2 928 | |
| Rex Technology Management Ltd [2)] | Rex Virtual Drilling analysis | 21 179 | 21 783 |

[1)] Rex International Holding Ltd owns 100 % of the shares in Rex International Investments Pte. Ltd which directly and indirectly owns 89,2 % of the shares in Lime Petroleum Norway AS.

[2)] Rex Technology Management Ltd is owned 100 % by Rex International Investments Pte. Ltd.

**b) Balances with related parties (trade receivables)**

| Related party | 2016 | 2015 |
|---|---|---|
| Group companies under control of Rex International Investments Pte. Ltd | 1 695 | |

**Compensation to key management 2016**

*(Amounts in TNOK)*

| Position | Salary/ Board fee | Pension contribution | Total 2016 |
|---|---|---|---|
| CEO | 4 674 | 65 | 4 738 |
| Board of Directors | 420 | | 420 |

Mr Ivar Aarseth decided to step down from the position as CEO of the Company and take retirement from 1 November 2016. He was from the same date replaced by Mr Terje Hagevang who has since May 2014 been employed as the COO/Exploration Manager of the Company.

As at 31 December 2016 there is no agreement of bonus to key management.

The Company may remunerate employees in the form of options or other remuneration linked to the Company's shares or share value. Such employees participate in the Company's share-based bonus program.

**Compensation to key management 2015**

*(Amounts in TNOK)*

| Position | Salary/ Board fee | Pension contribution | Total 2016 |
|---|---|---|---|
| Mr Ivar Aarseth, (CEO) | 4 318 | 65 | 4 382 |
| Board of Directors | 86 | | 86 |

# Note 18 Operating leases

The Company has no finance leases.
The Company has entered into operating leases for office premises, parking and IT equipment/software.
The lease costs consist of ordinary lease payments and include:

| *(Amounts in TNOK)* | **2016** | **2015** |
|---|---|---|
| Lease office premises and parking | 1 117 | 920 |
| Lease machinery and office furniture | 71 | 188 |
| **Total lease costs** | **1 188** | **1 108** |

The future minimum rents related to non-cancellable leases and subleases fall due as follows:

| *(Amounts in TNOK)* | **2016** | **2015** |
|---|---|---|
| Within 1 year | 1 220 | 1 089 |
| 1 to 5 years | 915 | 2 140 |
| After 5 years | | |
| **Total** | **2 136** | **3 229** |

# Note 19 Contingent liabilities

The company has not been involved in any legal or financial disputes in 2016 where adversely outcome is considered more likely than remote.

# Note 20 Shares in licences and obligations

The Company's obligations for 2017 related to the licence portfolio as at year end are estimated to a total of NOK 42 million.
This forecast is based on the approved licence budgets.

# Note 21 Events after the balance sheet date

Notice from the Ministry of Petroleum and energy for relingquishment of licences PL410, PL708, PL760 / B / C and PL770 was recived during first and second quarter of 2017. Final approval for relinquishment of licence PL410 is pending. The approval is expected during second quarter 2017.

The authorities' approval to extend licence PL762 Drill-or-Drop decision with one year, was received during first quarted 2017. Approval for 2-years extentsion of Drill-or-Drop decision on the licence PL815 is still pending. Approval is expected during second quarted 2017.

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To the General Meeting of Lime Petroleum Norway AS

# Independent Auditor's Report

## Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of Lime Petroleum Norway AS which comprise the balance sheet as at 31 December 2016, income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements are prepared in accordance with law and regulations and present fairly, in all material respects, the financial position of the Company as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

### Basis for Opinion

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

### Other information

Management is responsible for the other information. The other information comprises the Board of Directors' report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsiblities of The Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (management) are responsible for the preparation in accordance with law and regulations, including fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

## Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

## Report on Other Legal and Regulatory Requirements

### Opinion on the Board of Directors' report

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

### Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements *(ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 12 May 2017
KPMG

Roland Fredriksen
*State Authorised Public Accountant*

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