

# DIRECTORS' REPORT 2016

Concedo has continued its exploration activity as before, amid turbulent times in the industry. In January 2016, the price of oil plunged to its lowest level in several years, leading to even more uncertainty in the market. Oil companies reduced investments further and the number of transactions increased. Many exploration wells were postponed or dropped.

Reserve replacement rates have been very low globally over the last five years. In 2016, this was also the case on the Norwegian Continental Shelf (NCS). The demand for oil and gas is still increasing, and the combination of increasing demand and low reserve replacement should lead to an increased focus on exploration and affect the oil price in the end.

Exploration activity on the NCS declined in 2016 compared to the previous year. Twenty-eight pure exploration wells were spudded in 2016, 20 fewer than in 2015. There were 18 discoveries, most of them small, and the reserve replacement was low. However, many of the discoveries were close to infrastructure for possible commercial development.

There were more mergers and acquisitions on the NCS in 2016, reducing the number of active companies. This creates both opportunities and constraints for Concedo. The number of competitors has been reduced, but we have fewer companies to partner with.

Expenses related to drilling and seismic data represent the largest costs in Concedo's business. Drilling rig rates have fallen and seismic data is offered on very favourable conditions. As such, the downturn in the industry also offers good opportunities.

A theme that was introduced in the annual report last year was «Standing on the shoulders of giants». The word "giants" is in our case referring to the three oil fields; Johan Sverdrup, Gullfaks and Goliat. Concedo's ambition has been to build on the accumulated knowledge in these areas and contribute to the further success of these valuable assets. In areas near fields, the most important clues as to new discoveries are often found by looking closely at the data from the many old wells.

Concedo holds several licences south of Johan Sverdrup. In licence PL 776, the Rome prospect was drilled during the summer of 2016, but the well was dry. The work continues in order to evaluate other prospects in the licence. Another licence in the area, PL 815, is particularly promising. In that licence, it is necessary to undertake de-risking work before making a drilling decision.

Concedo's relationship with the Gullfaks area started with the PL 746S licence. The main focus in this licence was the upside in the existing Hernar discovery. There is also the possibility that the Skinnfaks South discovery extends into this licence. The subsurface evaluation of the prospectivity is ongoing and the drill or drop decision deadline is early 2017. The partnership has applied for an extension of this deadline.

In the Barents Sea, Concedo entered into PL 697, close to the Goliat field, in 2015. The Goliat Eye prospect is planned to be drilled in the second half of 2017. The work in other licences in the area is in the de-risking phase.

PL 784 in the central North Sea has become very interesting after the Langfjellet discovery was made in 2016 just west of this licence area.

The company's strategy remains robust and Concedo will continue to focus on the NCS and submit applications in the annual licensing rounds "Awards in Predefined Areas (APA)". Further, Concedo will participate in one to three exploration wells per year.

The award of six licences to Concedo in January 2016 in APA 2015 reinforced the company's focus on its priority areas. The exploration team believes there is a good possibility of finding oil in these areas and continues building knowledge of the geology and migration routes for oil. Proximity to existing fields makes discoveries more likely to be commercial.

In January 2017, Concedo was awarded five licences in APA 2016, in attractive areas near existing fields such as Snorre, Heidrun and Goliat.

### **Objectives and strategy**

Concedo's ambition is to be one of the best exploration teams on the NCS, capitalizing on the team's excellent knowledge of leads and unmapped resources on the NCS and working in areas aligned with the team's strengths. We create value by selling discoveries prior to development, thus avoiding capital-intensive investments in field development. Concedo's strategy is to preserve its financial strength so it can sell discoveries at the best possible time and be regarded as an attractive partner by other oil companies.

### **Highlights in 2016**

One well was drilled, unfortunately dry, but below the expected cost and without causing any damage or injuries.

Six licences were awarded in 2016 and a further five licences have been awarded so far in 2017. Six licences were relinquished, bringing the total to 20 licences by the end of the first quarter 2017.

Concedo is maintaining its support agreement with Geocore AS, giving us additional capacity in the licensing rounds.

### **Drilling**

The Rome well, 16/5-6, in licence PL 776 was drilled in July and classified as dry. The expected Jurassic reservoir was not there and the well proved a tight sandstone of unknown age. This licence is located in the North Sea, south of the Johan Sverdrup field. The well was drilled by the Borgland Dolphin rig. The operator of the licence is Tullow (40%) with Wintershall (20%), Concedo ASA (20%) and Petoro (20%) as partners.

### **Financing**

The company has renewed the NOK 350 million exploration finance facility established with DNB. Options have been included to give Concedo additional flexibility. This will provide the level of working capital needed for the exploration programme going forward to 2019.

## **Business office**

Concedo has renewed the lease of its existing offices in Asker outside Oslo.

## **History**

Concedo was established as an exploration company in 2006 and pre-qualified as a licensee on the NCS in 2007. From the beginning, the company had a strong team of eight experienced employees. The team grew, in pace with assignments and the number of licences in the company's portfolio, to 13 employees in 2015. The first discovery (gas) was made in 2008 - the Galtvort prospect - and in 2009 oil was found in what is now known as the Hyme Field, both in licence PL 348. Concedo's interest in this licence was sold to Statoil in 2010. In 2010, the Maria discovery, just south of the Smørbukk South field, was proven to be oil-bearing. This was sold to the operator Wintershall in 2011. The Novus discovery was made in early 2014, but was declared non-commercial. In 2014, Concedo divested PL 607 to Total E&P. In 2015, Concedo acquired a 10% working interest share in PL 697 in the Barents Sea.

## **Research and development**

Concedo is a member of FORCE (Forum for Reservoir Characterization, Reservoir Engineering and Exploration), set up by the Norwegian Petroleum Directorate to stimulate industrial cooperation, improve exploration processes and enhance the recovery of resources on the NCS. Concedo contributes actively; with members in the technical committee, the sedimentology committee and the structural geology group.

The company has, over the years, tested out many new exploration technologies and chosen the ones most suitable for the different exploration areas.

Concedo has also been an active participant in the Norwegian Oil and Gas Committee for Licensing Policy and in the Norwegian Oil and Gas Scout Group.

## **Health, safety and the environment**

The company ensures that all its activities are carried out without causing harm to humans or the environment. Safeguarding people, the environment and financial assets is an integral part of our management system and daily operations. Our activities caused no spills, injuries or accidents in 2016.

As a licensee on the NCS, Concedo bears responsibility for, and makes conscious choices designed to minimize, risks to itself and its partners. Concedo actively supports the operator with expertise and experience in preventing undesirable incidents while participating in drilling operations. Concedo has been actively involved in risk assessments and audit meetings.

The working environment is considered good and we make continuous efforts to improve it further. In 2016, our employees participated in health and environment activities to prevent injuries. The sick leave in 2016 was 50 days or 1.16 % of the total working hours.

## **Gender equality**

At the end of 2016, Concedo had thirteen employees, three women and ten men. The Board of Directors has five members, two women and three men. Concedo emphasizes gender equality, equal conditions and the equal treatment of all employees.

## **Sustainability and responsibility**

Concedo integrates Corporate Social Responsibility (CSR) into its daily work routines and management system. In 2016, CSR procedures were established in the company, in addition to anti-bribery and corruption procedures.

It is an integral part of our business to ensure respect for human rights, take responsibility as an employer, minimize our impact on the environment, fight corruption and ensure a transparent corporate culture when dealing with all our stakeholders. We consider this a necessary and natural part of the way we carry out our business operations.

## **Corporate governance**

The company's owner control and management system is in accordance with Norwegian recommendations. Concedo complies, where relevant, with the Norwegian Code of Practice for Corporate Governance (NUES).

The Board of Directors held seven meetings in 2016. Key strategic and operational issues that were discussed include:

- A review of the impact of the low oil price and political situation internationally; the US election and Brexit.
- Close monitoring of the company's operational and financial performance, including Quality, Health, Safety and the Environment. Lessons-learned discussions after the completion of important activities, such as the drilling of the Rome well and awards in licensing rounds.
- Strategic balancing of the portfolio of exploration licences and assessment of licence applications in APA 2016.
- Assessment of investment and divestment opportunities.
- Supervision of risk management processes and internal control reporting.

## **Salaries for management and employees**

In accordance with section 6-16a of the Public Limited Companies Act, the Board of Concedo ASA has prepared guidelines for determining the salaries and other remuneration of the company's management and employees.

## **Financial performance 2016**

Financial statements are prepared in accordance with the Public Limited Companies Act, the Accounting Act and generally accepted accounting principles in Norway. To the best of the Directors' knowledge, there are no circumstances of significance for assessing the company's position as at 31 December 2016 or the result for 2016 that are not set forth in the annual report and financial statements.

The Directors believe that the annual accounts give a true presentation of Concedo's financial position as at 31 December 2016 and of the result and cash flows for the fiscal year.

## **Revenues and profits**

The company made an operating loss of NOK 139 million. The year's loss after tax was NOK 39 million. The company invested a total of NOK 1 million in exploration activities in 2016. It claims NOK 109 million as a refund of the tax value of exploration costs. Exploration activities consist of the company's operating expenses, licence costs, seismic surveys and exploration wells. Costs related to preparations for drilling exploration wells are recognized in the balance sheet. The capitalized cost related to drilling depends on whether or not commercial reserves are discovered. The exploration costs connected to the preparation of the Rome well and the well drilling costs in the PL 776 licence have been expensed.

## **Balance sheet and liquidity**

At year-end 2016, the company's book equity amounted to NOK 166 million, equal to an equity ratio of 61%.

The company's interest-bearing debt originates from the NOK 350 million loan facility, of which NOK 98 million had been utilized as at 31 December 2016. The debt is secured by the tax-related refund of exploration costs. This is expected to be NOK 109 million for 2016.

## **Cash flow**

The net cash flow from operating activities in 2016 was NOK (15) million. This included a tax refund of NOK 123 million. The net cash flow from financing activities was NOK (22) million.

## **Distribution of profit**

No dividend was paid in 2016.

## **Operational, financial and market risks**

Our strategy is to obtain revenues through the sale of interests in discoveries. Key risks and uncertainties in our operations are related to the results of exploration work and the potential earnings from them.

The company is exposed to market risks from oil prices and the US dollar exchange rate. The company has interest-bearing debts and is exposed to changes in interest levels. These fell in 2016. At present, Concedo does not have any contracts to hedge market risks.

The Norwegian government levels the playing field between production and exploration companies by contributing to the exploration costs of non-producers. This practice is expected to continue.

## **Credit risks**

The company has few receivables, so the risk of our debtors or partners being unable to fulfil their obligations to Concedo is low.



**Liquidity risks**

The company has cash reserves and a loan facility that provides financial flexibility. The Directors consider the company's liquidity to be good.

**Currency risks**

Some of the exploration costs are in USD. The Board has evaluated the situation related to USD versus NOK and decided not to hedge the currencies. A large part of the company's costs are in NOK.

**Risk of low oil price**

Short-term low oil prices have some positive effects for Concedo, as exploration costs tend to be significantly reduced, e.g. lower rig rates. However, the low oil price has reduced the price obtained for new discoveries.

In the longer term, a higher oil price is desirable, as this will increase the value of the oil and gas discovered.

**Going concern**

The financial statements have been prepared based on the going concern assumption. In compliance with section 3-3a of the Accountancy Act, we confirm that the requirements for a going concern have been satisfied.

**Future prospects**

Concedo's strategy is to preserve its financial strength in order to have the flexibility to sell discoveries at the optimum time and to be regarded as an attractive partner by other oil companies and the authorities. Concedo will continue to apply for licences, preferably close to infrastructure and with a drilling depth of less than 4,000m.

The company has the financial strength to pursue its strategy, even if it takes time before the oil price stabilizes at a higher level and optimism returns to the industry.

The current portfolio establishes a sound foundation. Concedo has carried out a lot of work on its licences. In addition, in the case of a discovery, all the licences are favourable with regard to commercialization as they may be candidates for tie-ins to existing fields.

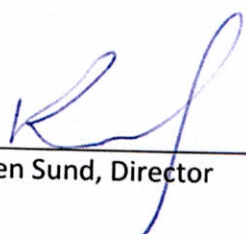
Concedo has successfully been awarded licences in recent APA rounds and has a satisfactory number of good prospects for potential future drilling. The five licences awarded in APA 2016 are in attractive areas near existing fields for commercialization. The company is particularly excited by the potential in the PL 697, PL 815, PL 784 and PL 768B licences. The Goliat Eye prospect will be drilled in 2017 and the other licences are being evaluated for a drilling decision in the next few years. The awards in APA 2016 give additional potential for drilling additional wells.

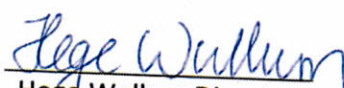
The Concedo team is very enthusiastic and motivated by the future opportunities.

Asker, 14 March 2017


  
Olav Fjell, Chairman

  
Erik Klausen, Director

  
Karen Sund, Director

  
Hege Wullum Director

  
Nirav Dagli, Director

  
Geir Lunde, CEO

Concedo ASA

# Balance Sheet as of 31 December 2016

Figures are given in the Norwegian currency NOK

<b>ASSETS</b>	<b>Note</b>	<b>2016</b>	<b>2015</b>
<b>Fixed assets</b>			
<b>Intangible assets</b>			
Deferred tax assets	6	19 627 482	17 404 140
Capitalised exploration expenses and licences	3	3 867 010	2 809 716
<b>Total intangible assets</b>		<b>23 494 492</b>	<b>20 213 856</b>
<b>Tangible fixed assets</b>			
Furniture, fixtures & machinery	3	261 223	160 990
<b>Total tangible fixed assets</b>		<b>261 223</b>	<b>160 990</b>
<b>Total fixed assets</b>		<b>23 755 715</b>	<b>20 374 847</b>
<b>Current assets</b>			
<b>Receivables</b>			
Other receivables	8	111 912 994	138 907 618
<b>Total receivables</b>		<b>111 912 994</b>	<b>138 907 618</b>
Bank deposits, cash-in-hand etc.	7	135 032 295	173 468 333
<b>Total bank deposits, cash-in-hand etc.</b>		<b>135 032 295</b>	<b>173 468 333</b>
<b>Total current assets</b>		<b>246 945 289</b>	<b>312 375 950</b>
<b>Total assets</b>		<b>270 701 004</b>	<b>332 750 797</b>



Concedo ASA

# Balance Sheet as of 31 December 2016


Figures are given in the Norwegian currency NOK

SHAREHOLDERS' EQUITY AND LIABILITIES	Note	2016	2015
<b>EQUITY</b>			
<b>Paid-in capital</b>			
Share capital	4,5	2 430 066	2 430 066
Treasury shares	5	-158 379	-158 379
Share premium	5	4 567 126	4 567 126
Other paid in capital	5	1 150 667	531 240
<b>Total paid-in capital</b>		<b>7 989 480</b>	<b>7 370 053</b>
<b>Retained earnings</b>			
Other reserves	5	158 297 042	197 397 145
<b>Total retained earnings</b>		<b>158 297 042</b>	<b>197 397 145</b>
<b>Total Equity</b>		<b>166 286 521</b>	<b>204 767 198</b>
<b>Current liabilities</b>			
Owed to credit institutions	10,12	97 971 884	119 752 859
Trade creditors		2 180 459	4 213 905
Unpaid government charges etc.		1 798 410	1 757 246
Other current liabilities	11	2 463 729	2 259 589
<b>Total current liabilities</b>		<b>104 414 483</b>	<b>127 983 599</b>
<b>Total liabilities</b>		<b>104 414 483</b>	<b>127 983 599</b>
<b>Total Equity and Liabilities</b>		<b>270 701 004</b>	<b>332 750 797</b>

Asker, 14 March 2017

  
Olav Fjell

Chairman of the Board

  
Hege Wullum  
Director

  
Erik Klausen

Director

  
Nirav Dagli  
Director

  
Karen Sund

Director

  
Geir Lunde  
CEO

Concedo ASA

# Profit and loss account 2016

Figures are given in the Norwegian currency NOK

	Note	2016	2015
Depreciation on fixed and intangible assets	3	-258 490	-456 423
Exploration expenses	2,9,13,14	-139 174 807	-160 760 348
<b>Total operating expenses</b>		<b>-139 433 296</b>	<b>-161 216 771</b>
<b>Operating profit/loss</b>		<b>-139 433 296</b>	<b>-161 216 771</b>
Other interest received		1 896 482	3 476 228
Other financial income		1 520 970	8 132 750
<b>Total financial income</b>		<b>3 417 451</b>	<b>11 608 978</b>
Other interest paid		-7 668 918	-8 901 501
Other financial expenses		-6 355 032	-4 354 715
<b>Total financial expenses</b>		<b>-14 023 950</b>	<b>-13 256 217</b>
<b>Net financial items</b>		<b>-10 606 499</b>	<b>-1 647 238</b>
<b>Pre-tax profit/loss on ordinary activities</b>		<b>-150 039 795</b>	<b>-162 864 009</b>
Tax cost on profit on ordinary activities	6	110 939 692	126 150 401
<b>Ordinary profit/loss</b>		<b>-39 100 103</b>	<b>-36 713 608</b>
<b>Income/loss for the year</b>		<b>-39 100 103</b>	<b>-36 713 608</b>
<b>Allocations</b>			
Other reserves	5	-39 100 103	-36 713 608
<b>Total</b>		<b>-39 100 103</b>	<b>-36 713 608</b>

Concedo ASA

# Cash Flow Statement

OPERATING ACTIVITIES	Note	2016	2015
Pre-tax result		-150 039 795	-162 864 009
<b>Adjustments for reconciling current year's result with cash flow from operating activities:</b>			
Depreciation, amortisation and write-downs	3	258 490	456 423
Capitalised exploration costs expensed		27 063	4 082 322
Other items having no cash effect – subscription rights		619 427	531 240
Tax reimbursement received in period	6	123 121 522	215 548 948
<b>Change in working capital (except for cash and cash equivalents):</b>			
(Increase) reduction in trade debtors and other receivables		12 589 452	-11 533 551
Increase (reduction) in trade creditors and other current debts		-1 788 142	-6 580 860
<b>Cash flow from operating activities</b>		<b>-15 211 983</b>	<b>39 640 513</b>
<b>INVESTMENT ACTIVITIES</b>			
Investments in fixed assets	3	-358 723	-
Capitalised exploration expenses	3	-1 084 357	-2 113 647
<b>Cash flow spent on investment activities</b>		<b>-1 443 080</b>	<b>-2 113 647</b>
<b>FINANCING ACTIVITIES</b>			
Share issue	5	-	-
Dividends and repayment of paid-in capital	4	-	-
Purchase of treasury shares	5	-	-
New interest-bearing short-term debt	10	88 299 993	59 060 000
Repayments short-term debt	10	-110 080 968	-139 322 263
<b>Cash flow spent on financing activities</b>		<b>-21 780 975</b>	<b>-80 262 263</b>
Net increase (reduction) in cash and cash equivalents		-38 436 037	-42 735 397
Cash and cash equivalents at beginning of year		173 468 333	216 203 730
<b>Cash and cash equivalents at end of year</b>		<b>135 032 295</b>	<b>173 468 333</b>



## Concedo ASA

### Note 1 Accounting Principles

The financial statements have been prepared in accordance with the Norwegian Accounting Act of 1998 and generally accepted accounting principles in Norway.

#### Main principles for valuing and classifying assets and liabilities

Assets intended for permanent ownership or use are classified as fixed assets. Other assets are classified as current assets. Receivables due within one year are classified as current assets. Classification of current and long-term liabilities is based on the same criteria.

Fixed assets are carried at historical cost net of accumulated depreciation. Fixed assets that have a limited economic life are depreciated according to a reasonable schedule. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Current assets are valued at the lower of historical cost and fair value.

Other long-term and current liabilities are valued at their nominal value.

#### Interests in oil and gas licenses

Ownership in oil and gas licenses are recognised by including Concedo's share of assets, liabilities, income and expense in the license on a line by line basis (gross method).

#### Accounting for exploration costs

The company follows the «successful efforts» method of accounting for exploration costs in oil and gas operations. Costs for acquiring mineral interests in oil and gas areas and for drilling exploration wells, are capitalised pending determinations of whether recoverable reserves have been found. Costs for drilling exploration wells where no recoverable reserves are found, geological and geophysical costs and other exploration costs, are expensed.

Exploration wells that have shown reserves, but where classification as proven reserves depends on whether substantial investments are justified, may remain capitalised for more than one year. Capitalised exploration wells and acquisition costs are reviewed continuously for impairment.

#### Receivables

Trade receivables and other receivables are recognised at their nominal value less provision for expected loss.

#### Bank deposits, cash in hand, etc.

Bank deposits, cash in hand and cash equivalents include cash in hand, bank deposits and other means of payment having maturity of less than three months from the date of purchase.

#### Revenue

Revenue is recognised when it is earned, i.e. when both the risk and control have been transferred to the customer.

#### Expenses

Expenses are generally entered in the same period as the corresponding income.

#### Leasing agreements

Significant lease contracts that are classified as financial leases are recognised as assets and depreciated using the straight-line method based on the estimated useful life. Operational leases are expensed as incurred.

#### Pensions

The company is required to maintain an occupational pension scheme in accordance with the Norwegian Act relating to mandatory pensions ("Lov om obligatorisk tjenestepensjon"). The company's pension scheme satisfies the requirements in that Act.

Contribution plans are accounted for according to the matching principle. The year's contribution to the pension scheme is expensed.

#### Share-based remuneration

The company has a remuneration plan based on payment in shares. The fair value of the services the company has received from the employees in return for the awarded subscription rights is entered as an expense. The total sum expensed over the earning period is calculated on the fair value of the subscription rights awarded.

At each balance sheet date, the company re-estimates the number of subscription rights likely to be exercised. The company enters the effect of any change in the original estimates in the P/L account with a corresponding adjustment of equity capital. After deduction of attributable transaction costs, payments received when rights are exercised are credited to share capital (nominal value) and the share premium account when subscription rights are exercised.

#### Taxes

Tax expenses are matched with book income before tax.

Tax expenses consist of payable tax (tax on the year's direct taxable income), change in net deferred tax and anticipated reimbursements related to exploration costs.

Deferred tax and deferred tax benefits in the same tax regime are presented net in the balance sheet. Deferred tax benefit is recognised in the balance sheet provided that the future use is rendered probable.

#### Cash flow analysis

The cash flow analysis is prepared using the indirect method.

## Note 2 Payroll costs, number of employees, benefits etc.

Company payments to and pension costs for employees are presented in the following table:

Payroll costs	2016	2015
Salaries	17 304 094	17 281 445
Employers payroll tax	2 693 669	2 681 230
Pension costs	1 389 258	1 447 644
Share-based remuneration	619 427	531 240
Other benefits	234 350	159 649
Total	22 240 797	22 101 208
Number of man-years employed during the financial year	13	13

\*) Employers payroll tax comprises of tax on payroll and exchange of subscription rights as part of the incentive scheme.

Concedo ASA has adopted a contribution-based pension scheme, which has an individual choice of investment. The scheme covers a total of 13 employees.

### Remuneration paid to directors and management

	Salary	Pension costs	Other remuneration
Geir Lunde (CEO)	1 551 900	107 312	36 197
Olav Fjell (Chairman)			150 000
Erik Klausen (Director and HSE Manager)	1 485 314	93 623	38 972
Hege Wullum (Director)			100 000
Karen Sund (Director)			100 000
Nirav Dagli (Director)			100 000

The CEO has a severance pay contract under which he, if he leaves at the company's request, is entitled to salary for 6 months after his period of notice expires. For subscription rights awarded to the CEO and directors in connection with the incentive scheme, see Note 5. Consultancy services of NOK 249 996 excl. VAT were purchased from Fjellvit AS, a company owned by the Chairman of the Board.

### Share-based remuneration

With the approval of the AGM, the Directors of Concedo have awarded the employees 298 086 subscription rights as of 1 January 2016. During 2016 no subscription rights were exchanged into shares. On 15 December 2016, the Directors decided to distribute 110 743 subscription rights in accordance with the guidelines for remuneration of senior management.

The fair value of the subscription rights awarded, calculated according to Black & Scholes option pricing model, was NOK 11 468 453. NOK 619 427 was expensed in 2016. At December 31 2016, the estimated amount of share-based remuneration cost yet to be expensed throughout the vesting period is NOK 1 556 016.

The calculation is based on a risk-free interest (Government bonds with 3-5 years maturity), and expected exercise of subscription rights after 48 months. The standard deviation from the expected yield is estimated at 50 %.

### Number of subscription rights

	2016	2015
Outstanding as of 1 January	298 086	187 343
Awarded during year	110 743	110 743
Forfeited during year	0	0
Exercised during year	0	0
Expired during year	-59 167	0
Outstanding as of 31 December	349 662	298 086



Average gross exercise price is NOK 27,1 per share. According to the prevailing conditions related to the subscription rights the exercise price is adjusted for distribution of dividends.

Board of Director's statement regarding remuneration of senior management in Concedo ASA.

In accordance with section 6-16a of the Norwegian Public Companies Act, the Directors of Concedo ASA have drawn up guidelines for determining the salaries and remuneration for senior management and employees in the company. These guidelines cover the basic pay for officers and employees, remuneration in the form of subscription rights in the company and a bonus programme that may be used in exceptional cases. These guidelines are binding for the Board in so far as concerns schemes involving allocation of shares, subscription rights and other forms of remuneration that are linked with shares or developments in the price of the company's shares. Otherwise, the guidelines are intended as guidance to the Board. If in any contract the Board departs from these guidelines, the reason for doing so shall be recorded in the Board Meeting minutes.

The Norwegian Code of Practice for Corporate Governance provides that a company's guidelines for remunerating senior staff should each year be submitted to the General Meeting for its information. Pursuant to this Code of Practice, the framework for allocating options and shares to employees should be subject to prior approval by the General Meeting. Therefore, the company presents these guidelines and the proposed incentive programme to the annual general meeting of Concedo ASA.

The guidelines provide that remuneration in Concedo ASA shall consist of a fixed basic pay plus a variable consisting of an incentive programme and a bonus scheme, respectively.

The guidelines and compliance in 2016:

The Board established guidelines for 2016 for Managing Director, other senior executives and the Board members. The guidelines were processed at the company's annual general meeting in 2016.

Managing Director and other Senior Executives

For the year 2016 subscription rights were allocated for the value equivalent to 25 % of the achievable target in accordance with the guidelines. Each subscription right carries the right to purchase one share in the company at a price corresponding to an estimated market price of NOK 16 per share evaluated by an independent expert. In accordance with the guidelines, company employees thus have an opportunity to subscribe shares as follows:

Name	Price/share (NOK)	Subscription Rights
Geir Lunde	16	9 574
Erik Klausen	16	9 163
Morten Hedemark	16	9 163
Ole H Fjelltn	16	9 163
Odd E Baglo	16	9 163
Elisabet Malmquist	16	8 247
Enric Leon	16	5 356
Dirk van der Wel	16	5 498
Anders Finstad	16	7 798
Juergen Sclaf	16	8 034
Ane M Skaug Rasmussen	16	6 695
Hilde Alnæs	16	6 695
Tommi Rafael Rautakorpi	16	9 163
<b>Total</b>	<b>16</b>	<b>103 712</b>

The incentives to the members of the Board, as described below, follow the guidelines drawn up for the company's employees.

#### Directors of the Board

For the year 2016 subscription rights for the equivalent of 25 % of the achievable target were allocated in accordance with the guidelines. Every subscription right gives the right to issue one share in the company at a price corresponding to an estimated market price of NOK 16 per share. The members of the Board of the company thus have an opportunity to subscribe shares according to the guidelines:

Name	Price/share (NOK)	Subscription Rights
Olav Fjell	16	2 342
Erik Klausen	16	0
Karen Sund	16	1 563
Hege Wullim	16	1 563
Nirav Dagli	16	1 563
<b>Total</b>	<b>16</b>	<b>7 031</b>

In total, 110 743 subscription rights were allocated in 2016 that can be exercised after 3 years and before 5 years, pursuant to Board Resolution of 15 December 2016 on the basis of the approved guidelines for 2016 and detailed conditions to be approved in the General Meeting 2017.

#### **Guidelines for 2017:**

At the annual general meeting in 2017, the Directors will present the following statement regarding pay for the CEO, other senior staff and the Directors in 2017:

##### **(i) Basic pay:**

Pursuant to the guidelines, basic pay shall be determined by the CEO based on what is considered good, competitive normal pay in the market. The CEO's salary shall be determined by the Directors. Directors' fees shall be determined by the AGM.

##### **(ii) Incentive programme:**

In addition to the fixed basic pay, the Directors propose that the present incentive programme with subscription rights in the company, be continued. The incentive programme shall normally be allocated each year and the subscription rights allocated by the Directors, based on recommendations from the CEO within the framework of the resolution adopted by the general meeting. Subscription rights under this scheme shall be allocated according to specifically designated targets achieved by the company, and shall normally be issued to all employees.

Pursuant to the Directors' guidelines, the number of subscription rights shall be calculated by dividing a percentage – maximum 40% – of the annual pay earned by the employee during the year, by the market price of the shares. The maximum number of subscription rights for each employee will therefore be equivalent in value to up to 40% of the employee's earnings during the year, divided by the market price of the shares. The market price of the shares will be determined by an arm's length public accountant or other arm's length person having expert knowledge of the matter. Subscription rights can at the earliest be exercised at IPO or if the company is sold. Otherwise, the subscription rights may be exercised at any time whatsoever in the period between 3 and 5 years after the allocation date. It is a condition for exercise of subscription rights, however, that the person concerned is still an employee of the company or a pensioner.

For Directors who are not employed by the company, the number of subscription rights shall, pursuant to the Board guidelines, be calculated by dividing a part – maximum 100% – of the annual fee by the market price of the shares. The maximum number of subscription rights for each Director will therefore be equivalent in value to up to 100% of that Director's fee during the year, divided by the market price of the shares. The market price of the shares will be determined by an arm's length public accountant or other arm's length person having expert knowledge of the matter. Subscription rights can at the earliest be exercised at IPO or in the event of sale of the company. Subscription rights can otherwise be exercised at any time between 3 and 5 years from the allocation. Exercise of subscription rights is not dependent on whether he or she is the member of the Board of the company or not.

Nothing is paid for the subscription rights issued. Each of these subscription rights entitles the person to subscribe for one share in the company at a price corresponding to the average market price of the shares at the end of the year for which the incentive decision applies, as the price of the shares is determined by an arm's length public accountant or other arm's length person having expert knowledge of the matter.

The new shares issued when subscription rights are exercised, carry a right to dividend from the date of issue, i.e. a right to dividend, if any, for the financial year prior to the year of issue.

##### **(iii) Bonus scheme:**

The other variable element proposed by the Directors, is a bonus scheme. It is the intention that the bonus scheme shall be reserved for situations where it is highly probable that the employee(s) efforts have contributed towards creating extremely high added value and bonus may be awarded only when the added value exceeds NOK 100 million.

Normally, the bonus shall be divided equally and awarded to employees at discretion. However, the CEO may also distribute bonus as an individual reward.

Bonus will not normally be awarded in the form of money, but as subscription rights in the company. In the same way as under the incentive programme, maximum 40% of the person's pay from the company may be given per year as a bonus and therefore the subscription rights given as bonus shall be calculated by dividing the appropriate percentage of the employee's earnings by the market price of the shares. The market price of the shares shall be determined by an independent public accountant or other independent person having expert knowledge of the matter. Subscription rights may be exercised at the earliest by stock market introduction or by sale of the company. Otherwise, subscription rights can be exercised at any time during the period from 3 years to 5 years from the time of assignment.

#### **Auditor**

Remuneration for Deloitte AS is as follows (excl. VAT):

	2016	2015
Statutory audit		
Audit-related services	178 000	262 000
Certification services	14 000	45 300
	20 400	15 000

### Note 3 Tangible/ Intangible assets

	Furniture & Fixtures	Plant & Machinery	License interests, exploration wells	Total
Cost at 1 January				
Additions	3 177 849	77 725	2 809 716	6 065 290
Expensed dry wells, previously capitalised	358 723	-	1 084 357	1 443 080
Disposals			-27 063	-27 063
<b>Cost 31 December</b>	<b>3 536 572</b>	<b>77 725</b>	<b>3 867 010</b>	<b>7 481 307</b>
Acc. depreciation at 1 January				
Current year's depreciation	3 016 859	77 725		3 094 584
<b>Acc. Depreciation 31 December</b>	<b>258 490</b>	<b>-</b>	<b></b>	<b>258 490</b>
<b>Book value as of 31 December</b>	<b>3 275 349</b>	<b>77 725</b>	<b></b>	<b>3 353 074</b>
	<b>261 223</b>	<b>-</b>	<b>3 867 010</b>	<b>4 128 233</b>

### Note 4 Share capital and shareholders

As of 31.12.16, the company's share capital consisted of one class of shares, all of which bear the same voting rights. Acquisition of shares by purchase or as a gift or by any other means requires board approval.

	Number of shares	Nominal value	Book value
Shares			
<b>Total</b>	<b>11 718 893</b>	<b>0.2073631</b>	<b>2 430 066</b>
	<b>11 718 893</b>		<b>2 430 066</b>

#### Subscription rights

The right to exercise subscription rights lapses in the event of the company being listed on the stock exchange. The subscription rights may be exercised during a period of from 3 to 5 years from the date of allocation.

An overview of the subscription rights in the company is shown below.

Name	Number of rights	Subscription price (NOK)	Total Price (NOK)	Allocation date
Employees and Directors	29 407	47,5	1 396 833	14th December 2012
Employees and Directors	19 778	42	830 676	17th December 2013
Employees and Directors	78 991	22	1 737 802	11th December 2014
Employees and Directors	110 743	16	1 771 888	13th December 2015
Employees and Directors	110 743	16	1 771 888	15th December 2016
<b>Total</b>	<b>349 662</b>		<b>7 509 087</b>	

The above figures include 30 504 subscription rights allocated to Geir Lunde, 29 196 to Erik Klausen, 7 624 to Olav Fjell, 5 086 to Karen Sund, 5 086 to Hege Wullum and 4 560 to Nirav Dagli in connection with the incentive scheme.

#### Ownership structure

The ten largest shareholders as of 31.12.2016

Name	Quantity of shares	Percentage interest	Home country
H. M. Structures LIM	3 220 682	29,4 %	CYP
Euroclear Bank S.A.	2 580 000	23,6 %	BEL
MEGABAS AS	2 176 449	19,9 %	NOR
Heathlands Holdings	503 967	4,6 %	CYP
SMT TRUSTEES FOR PIL BROWN BROTHERS	307 500	2,8 %	IRL
KNUTSEN JOHN ERIC TANDBERG	250 000	2,3 %	NOR
UBS Switzerland AG	220 000	2,0 %	CHE
SIX SIS AG	220 000	2,0 %	CHE
FJELLVIT AS	154 529	1,4 %	NOR
GILBO INVEST AS	120 924	1,1 %	NOR
Other Shareholders	1 201 065	11,0 %	Miscellaneous
<b>Total</b>	<b>10 955 116</b>	<b>100 %</b>	

Concedo holds in addition to the above 763 777 (treasury shares) own shares in the company.

#### Shares owned by Directors and CEO:

Name	Position	Number of shares
Olav Fjell through 100% in Fjellvit AS	Board Chairman	154 529
Geir Lunde through 22,4% in Megabas AS	CEO	487 525
Erik Klausen through 16,4% in Megabas AS	Director	356 938
Geir Lunde	CEO	22 000
Nirav Dagli	Director	12 000
Erik Klausen through Catellas AS	Director	24 796
Karen Sund through Sund Energy AS	Director	2 307



## Note 5 Equity

	Share capital	Treasury shares	Share Premium	Other paid in capital	Other	Total
Equity at 1 January	2 430 066	-158 379	4 567 126	531 240	197 397 145	204 767 198
Subscription rights				619 427		619 427
Share issue	-		-			-
Transfer	-		-			-
Treasury shares purchased			-			-
Dividends and repayment if paid-in capital						-
Current year's profit/(loss)					-39 100 103	-39 100 103
Equity at 31 December	2 430 066	-158 379	4 567 126	1 150 667	158 297 042	166 286 521

The value of subscription rights expensed in 2016 of NOK 619 427 has been calculated according to the Black-Scholes formula.  
The share capital at the end of the year is NOK 2 430 066 consisting of 11 718 893 shares at a nominal value of 0.207363131, including 763 777 treasury shares.

## Note 6 Income tax

Income tax for the current year is calculated as follows:

	2016	2015
Adjustment for tax refund earlier years	19 838	15 858
Change in deferred tax	-2 223 342	-3 024 899
Tax value of exploration costs (See Note 8)	-108 736 188	-123 141 360
<b>Tax on ordinary income</b>	<b>-110 939 692</b>	<b>-126 150 401</b>

Reconciling nominal and actual tax rates:

	2016	2015
Pre-tax profit/loss	-150 039 795	-162 864 009
Anticipated income tax at nominal rate (25%)	-37 509 949	-43 973 282
Tax effect of following items:		
Adjustment for tax earlier years	19 838	15 858
Non-deductible expenses	197 088	173 632
Non-taxable income	0	0
Tax effect of interest on loss for carrying forward (25%/53%)	-171 561	-258 966
Change in tax rate	-12 609	-235 953
Effect of surtax (53%)	-73 462 499	-81 871 690
<b>Income tax</b>	<b>-110 939 692</b>	<b>-126 150 401</b>
Effective tax rate	74 %	77 %

Specification of tax effect of temporary differences and loss for carrying forward:

	2016		2015	
	Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax liability
Exploration expenses and license costs		2 550 419		1 658 246
Provisions for liabilities				
Loss to be carried forward				
Total	22 177 901		19 062 386	
Of which netted	22 177 901	2 550 419	19 062 386	1 658 246
Net deferred tax asset/ liability	-2 550 419	-2 550 419	-1 658 246	-1 658 246
	19 627 482	0	17 404 140	0

Profit from oil and gas operations on the Norwegian shelf is taxed in accordance with the Norwegian Petroleum Tax Act. A special 53% (2015: 51%) surtax is levied in addition to the ordinary 25% (2015: 27%) corporate tax. The taxpayer may claim payment from the government for the tax value of direct and indirect expenses (with the exception of financing expenses) for petroleum exploration, provided that the sum does not exceed the year's loss on, respectively, ordinary income in the shelf tax district and the basis for surtax.

Shelf loss may be utilized against a possible future shelf gain. Alternatively, the tax value of loss carry forwards connected to operations on the Norwegian Shelf will be received in the event of a possible termination of the business.

Deferred tax effect has been capitalised to the extent future realisation is deemed probable.

With effect from 1 January 2017 the Corporate tax rate is 24% (2016: 25%) and the special tax rate is 54% (2016: 53%). The tax rate effective from 1 January 2017 has been used in calculation of deferred tax at 31 December 2016.

## Note 7 Bank deposits

Bank deposits, cash in hand etc. includes non-distributable withheld tax in the sum of NOK 1 065 323 (2015: NOK 1 032 232) and a rental deposit of NOK 952 329 (2015: NOK 947 120)

## Note 8 Other receivables

For the 2016 tax assessment the company claims reimbursement of the tax value of petroleum exploration costs totalling NOK 108 736 188 (2015: NOK 123 141 360), see Petroleum Tax Act, 5th paragraph of section 3c.

Outstanding accounts with operators and others are also in the financial line item "Other receivables".

## Note 9 Leasing agreements

Annual rental for non-capitalised assets amounts to NOK 1 396 214 (2015: 1 468 589), which relates to rent for the office premises in Asker. The tenancy was renewed towards 30.10.2021; the remaining period of tenancy being 5 years.

## Note 10 Debt to financial institutions

The company has a credit line for NOK 350 000 000 in DNB ASA. The interest rate is NIBOR plus a margin of 1,55%.

Withdrawals are limited to 95% of the tax value of petroleum exploration expenses. Repayments coincide with the reimbursement of exploration expenses from the tax authorities. Concedo signed in the beginning of 2016 a new loan agreement for two years and with an one year option.

As of 31 December 2016 withdrawals totalled NOK 97 971 884. According to the loan agreement, 95% of the estimated tax reimbursement amounts to NOK 103 299 379. We have calculated the tax reimbursement as being NOK 123 141 360 see notes 7 and 9.

The loan is secured by the tax reimbursement scheme and balances thereon, and monetary claims in respect of all present and future Insurances.

## Note 11 Other current liabilities

	2016	2015
Working capital liabilities in joint ventures		
Wages, holiday pay and bonus	281 295	0
Accrued expenses	1 876 342	1 873 949
Other current liabilities	209 252	288 800
Total	96 840	96 840
	2 463 729	2 259 589

## Note 12 Financial market risk

The company employs financial instruments such as bank loans and deposits. The purpose of these instruments is to procure capital for the investments required for the company's activities. Other financial instruments are trade debtors etc. that are directly linked with everyday operations. The company does not trade in derivatives.

The most significant financial risks the company is exposed to are related to oil prices, interest rates, capital needs and loan terms. The risk of trade debtors and partners being unable to fulfil their obligations towards Concedo is considered to be low. The company is to a limited degree exposed to currency risk. The company has not entered into any contracts to offset the risks.

## Note 13 Exploration costs

Exploration costs in the profit and loss statement consist of the following:

	2016	2015
Payroll costs, ref note 3		
Seismic, drilling and general licence expenses	22 240 797	22 101 208
Other operating costs linked with exploration	102 866 878	126 093 317
Total	14 067 131	12 565 822
	139 174 807	160 760 348

Exploration expenses eligible for tax refunds amount to NOK 139 405 369 in 2016 (2015: NOK 157 873 538 ).

## Note 14 Sponsorships

In line with the company's Anti-bribery and corruption procedures the information on sponsorships shall be given in the notes of the Annual report. In 2016 the company sponsored the following:

Asker Svømmeklubb NOK 10 000  
Asker Fotball NOK 10 000  
Støtteforreningen for kreframmede, Asker: NOK 10 000  
SPE (Society of Petroleum Engineers), Oslo: NOK 25 000  
Bellona CCS program NOK 22 000



## Note 15 Licenses

### North Sea

PL 774 (30%): in block 16/7. Tullow is operator. To be relinquished in 2017.

PL 774B (30%): in block 16/10. Tullow is operator. To be relinquished in 2017.

PL 775 (20%): in blocks 16/7 and 16/8. Operator changed to ConocoPhillips. Two years extension of initial period, New DoD deadline February 2018.

PL 776 (20%): in blocks 16/5, 6, 8 and 16/9. Wintershall takes over operatorship from Tullow. Drilling decision made in February 2016. Well drilled on the Rome prospect in 2016. The well was dry.

PL 815 (20%): in block 16/5. Lundin is operator. The 3D seismic processing included in the work program has already been fulfilled. The license has applied for a two-year extension of the DoD decision (originally February 2017).

PL 816 (30%): in blocks 17/4 and 17/7. Eni is operator. Acquisition and processing of 3D seismic is ongoing. DoD by February 2018.

PL 824 (30%): in blocks 31/4 and 31/5. Point is operator. New 3D seismic acquired. G&G ongoing. Drill or drop decision 5th of February 2018.

PL 826 (30%): in blocks 29/3, 30/1 and 33/12. Point is operator. Reprocessing of 3D seismic is finalised. Geological and geophysical evaluation is ongoing.

PL 727 (30%): in blocks 3/5, 3/6, 3/8 and 3/9. Edison is operator. 18-months extension of DoD approved by the authorities. New DoD is 7th August 2017. G&G focus on Paleozoic Play. New re-processed PSDM data will be completed February 2017.

PL 746S (30%): in block 29/3. Point is Operator. Reprocessing of 3D seismic finalised. Geological and geophysical analysis is ongoing. Applied for two year extension of DoD decision to February 2019.

PL 784 (20%): in blocks 25/3, 6. Operator changed to Aker BP (previous Tullow). G&G work ongoing. Drill or drop decision 6th of February 2018.

PL 882 (30%): in blocks 33/6 and 34/4. VNG is operator. Awarded in APA 2016. The work programme includes acquiring 3D seismic, drill or drop after 2 years.

### Norwegian Sea

PL 887 (20%): in blocks 6507/7,8,10 and 11. PGNIG is operator. Awarded in APA 2016. The work programme includes acquiring and/or reprocess 3D seismic and drill or drop decision after two years.

PL 889 (40%): in blocks 6507/8 and 6507/9. VNG is operator. Awarded in APA 2016. The work programme includes acquiring and/or reprocessing of 3D seismic. Drill or drop decision after two year.

### Barents Sea

PL 768 (25%): in blocks 7123/5,6,7,8,9, 7124/4, 7, 8. Wintershall is operator. Seismic interpretation based on 2D seismic is finalised. 3D seismic will be acquired 2017 together with PL768B. DoD 2019.

PL 768B (25%): in blocks 7122/8, 9. Wintershall is operator. 2D seismic has been interpreted. Prospect mapping and evaluation is ongoing. A new 3D seismic volume will be acquired in 2017. DoD 2019.

PL 697 (10%): in block 7122/10. Site survey completed autumn 2016. The Goliat Eye Prospect will be drilled September 2017.

PL 804 (30%): in blocks 7121/10, 11 and 12. Wintershall is operator. Reprocessing of 3D seismic is ongoing. The licence will be relinquished in 2017.

PL900 (10%): in the blocks 7122/8 and 9. Eni is operator. Awarded in APA 2016. The work programme includes acquiring of 3D seismic, and drill or drop decision after two year.

PL 901 (20%): in blocks 7122/5 and 7122/6. Statoil is operator. Awarded in APA 2016. The work programme includes reprocessing of 3D seismic and drill or drop decision after two years.

## Note 16 Relinquished Licences 2016

### North Sea

PL 737S: Relinquished February 2016.

PL 670: Relinquished February 2016.

PL 670B: Relinquished February 2016.

PL 616: Relinquished August 2016.

### Norwegian Sea

PL 759: Relinquished February 2016

### Barents Sea

PL 769: Relinquished February 2016.