

## Directors' report 2022

2022 was a year of limited exploration activity, but with significant corporate activity and some field development activity. No exploration wells were drilled during the year. A private placement with existing shareholders raised NOK 30 million in May. Financial advisors were engaged to evaluate strategic alternatives for the Company and assist in executing the preferred alternative. At the year-end, plans were made for a feasibility study on a potential tie-back to the Snorre field as part of the ongoing Dugong development planning.

Concedo began the year by concluding the PL 882 sales process. The Company started exploring a potential divestment of its interest in Dugong in late 2021 but did not receive any satisfactory offers.

On 30 March, a capital raise of NOK 30 million in equity was approved at an extraordinary general meeting. All shareholders were invited to participate, and the majority of the shareholders chose to do so. The private placement was successfully completed in May.

On 8 June, amendments to the Norwegian petroleum taxation system were approved by parliament. The amendments were in accordance with the consultation paper published by the Norwegian Ministry of Finance on 3 September 2021, with the important addition that it will also be possible to pledge the new special petroleum tax ("SPT") refund, as was the situation with the previous exploration tax refund. The amendments were effective from 1 January 2022.

The main tax changes are that the offshore corporation tax ("CT") is still 22% but CT losses are to be carried forward and set off against future profits from production revenues. The SPT rate rises from 56% to 71.8% and the CT, if negative, is fully deductible from the SPT, to keep the total tax rate at 78% for oil & gas companies in full tax-paying position. The tax value of SPT losses is refunded in cash the year after the losses are incurred, in the same way as the previous exploration tax refund. This means that, for exploration companies like Concedo, the previous exploration tax refund of 78% of the exploration costs is replaced by a SPT refund of 71.8% of the costs, while the remaining CT element of 6.2% is to be carried forward. The shareholders must therefore finance a larger part of the exploration costs than before until such time the Company is in a full tax-paying position. As part of the introduction of the revised tax system, a refund of the tax value of historical losses pre-2020 will be included in the 2022 taxation. As a result, Concedo will receive NOK 27 million from previous years in November/December 2023.

Plans to develop PL 882 Dugong continued during the year. A subsea tie-back to the Snorre field is the preferred development alternative for Dugong, and a development studies plan was therefore agreed with Equinor's Snorre Unit team. The new plan aims for the start-up of a feasibility study in January 2023, PDO submission in 2025 and production start-up in late 2027, two years later than initially scheduled.

As communicated to shareholders during the capital raise, Concedo committed to evaluate strategic alternatives for its assets and the Company as a whole. The process is continuing, and shareholders will be updated in due course.

During 2022, the Company continued its active participation in 14 licences including those awarded in APA (Awards in Predefined Areas) 2021. Further, in preparation for applications for the APA 2022 licensing round, Concedo evaluated areas across the NCS (Norwegian Continental Shelf). Applications were, as always, based on knowledge, expertise and data gained from existing and previous licences in which Concedo is or has been a partner, combined with specific G&G (geophysical and geological) studies and technologies, such as EM (electromagnetic) technology,

seismic modelling and the analysis of 4D seismic data. During the year, one licence was relinquished. Concedo applied for, and was awarded, one licence in APA 2022. Concedo will not participate in any wells in 2023.

### **Objective and strategy**

Concedo's ambition is to have 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. In 2012, Concedo returned the capital initially invested in 2006 to its investors in the form of a pay-back of paid-in capital and dividends.

### **Financing**

A two-year NOK 350 million exploration financing facility agreement with Sparebank 1 SR-Bank was established in 2019. At the end of 2020, the agreement was extended for another two years, until the year-end 2022. In September 2022, the existing agreement was amended and restated due to the new tax system introduced in June 2022 and effective from 1 January 2022. In March 2023, the amended and restated agreement was renewed for another two years, until the year-end 2024.

### **Business office**

Concedo has a five-year lease on its existing offices in Asker that expires at the end of 2026. The lease was renewed for five years in 2021.

### **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. The first discovery (gas) was made in 2008 - the Galtvort discovery - and in 2009 oil was found in what is now known as the Hyme field. Concedo's interest in this licence was sold to Statoil in 2010. In the same year, the Maria discovery, just south of the Smørbukk South field, was proven to be oil-bearing. Concedo sold the Maria discovery to the operator Wintershall in 2011. The Novus discovery was made in early 2014 but declared non-commercial. The Kallåsen discovery and Grosbeak appraisal drilled in the adjacent licence took place in 2018. Concedo divested its share of the Grosbeak discovery in 2019. The Goddo discovery was made in 2019, while the Dugong/Sjøpølse discovery was made in 2020.

Concedo was converted from an ASA (public limited company) to an AS (private limited company) in 2020. Following many years with no changes to the board composition, three directors were replaced in 2020. In 2022, the chairman since 2006 stepped down. His position was taken over by one of the directors, whose directorship was taken over by the Company's main shareholder.

### **Research and development**

Concedo is a member of FORCE (Forum for Reservoir Characterization, Reservoir Engineering and Exploration), which was set up by the Norwegian Petroleum Directorate to stimulate industrial cooperation, improve exploration processes and enhance the recovery of resources on the NCS.

Over the years, the Company has evaluated many new exploration technologies and chosen the ones most suitable for the different exploration areas.

Concedo has also been an active participant in Offshore Norway's (previously the Norwegian Oil and Gas Association) exploration manager network and the Norwegian Oil Company Scout Group.

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

The Company ensures that all its activities are carried out without causing harm to people 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 2022.

As a licensee on the NCS, Concedo bears responsibility for and makes conscious choices designed to minimize risks to itself and its partners. The Company actively supports operators by providing 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. During the COVID-19 pandemic, Concedo, like most employers, introduced a flexible working environment, with staff alternating between working from home and in the office as instructed by the authorities. This flexible way of working was appreciated by the employees and survived the pandemic. The sick leave in 2022 was 53 days or 1.6% of the total working hours.

### **Gender equality**

At the end of 2022, Concedo had 14 employees – three women and 11 men. The Board of Directors has five members - one woman and four men. Concedo is committed to gender equality, equal conditions, respect for cultural diversity and the equal treatment of all employees.

### **Sustainability and responsibility**

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 conduct our business operations. CSR (corporate social responsibility) is part of the Company's management system. The Company has reviewed its management system with respect to the GDPR (EU General Data Protection Regulation) and CSR.

### **Corporate governance**

Concedo's management system is based on NUES (the Norwegian Code of Practice for Corporate Governance). In December 2022, the Company decided to incorporate the Norwegian Transparency Act into its management system. The Act came into force on 1 July 2022 and applies to larger enterprises but will also apply to Concedo in years when licence sale revenues exceed NOK 70 million. In addition, the Act will apply to all NCS operators. To satisfy the Act's requirements, the Company will publish a status statement in its annual report and on its website each year.

The Board of Directors held 14 meetings in 2022. Key strategic and operational issues that were discussed include:

- Execution of the PL 882 sales process
- The capital situation going forward following the aborted sale of PL 882
- The private placement of NOK 30 million directed towards existing shareholders

- Engagement of a financial advisor to evaluate strategic alternatives
- The APA 2022 application
- Amendment and restatement of the current exploration financing facility agreement
- Development planning of PL 882 Dugong
- Incorporation of the Norwegian Transparency Act into the Company's management system

The Company has established directors' liability insurance which, within the framework of the insurance wording, covers the personal liability Board members may incur as a director or the chief executive officer according to applicable law.

### **Management and employee salaries**

The Board of Concedo has prepared guidelines for determining the salaries and other remuneration of the Company's management and employees.

### **Financial performance**

Financial statements are prepared in accordance with the Norwegian Private Limited Companies Act, 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 of 31 December 2022 or the result for 2022 that are not set forth in the annual report and financial statements.

The Directors believe the annual accounts give a true presentation of Concedo's financial position as of 31 December 2022 and of the result and cash flows for the fiscal year.

### **Revenues and profits**

Concedo made an operating loss of NOK 58.3 million in 2022. The year's loss after tax was NOK 18.6 million. The result includes no sale of licences. The exploration costs consist of the Company's operating expenses and the cost of licences. Costs related to preparations for drilling exploration wells are recognized in the balance sheet. The capitalized cost related to drilling depends on whether commercial resources are discovered. The costs related to successful wells are capitalized, while costs related to dry wells and sub-commercial discoveries are expensed. In 2023, Concedo will consider expensing the PL 815 Goddo exploration well drilled in 2019. In December 2022, Aker BP submitted a field development plan for the Rolvsnes discovery (renamed Troidhaugen) in the neighbouring license. The development plan was cancelled 21 March 2023. As the Goddo discovery in PL 815 is quite similar to Rolvsnes and based on a conservative approach with regards to commerciality, expensing the Goddo well cost of NOK 79 million will therefore be considered.

### **Balance sheet and liquidity**

At the year-end 2022, the Company's book equity amounted to NOK 117.5 million, equal to an equity ratio of 37.5%. As at 31 December 2022, the Company had interest-bearing debt of NOK 40.2 million, all related to the exploration financing facility. At the same date, the Company had cash and equivalents of NOK 39.5 million and a tax refund claim equal to NOK 66.7 million, of which the tax value of the 2022 exploration cost refund constitutes NOK 39.8 million.

### **Cash flow**

The cash flow from operating activities in 2022 was NOK 112.8 million. This includes a tax refund of NOK 201.3 million. Without the tax refund, the cash flow from operating activities in 2022 would have been NOK -88.5 million, more in line with the exploration expenses of NOK -58.3 million. The

cash flow from investment activities was NOK 2.5 million due to reimbursement of some 2021 well costs, while the cash flow from financing activities was NOK -118.3 million. The total cash flow in 2022 was NOK -2.9 million.

### **Distribution of profit**

No dividend was paid in 2022.

### **Payments/refund of tax and payments to governments**

In accordance with section 3-3 d) of the Norwegian Accounting Act, companies engaged in activities within the extractive industries shall, annually, prepare and publish information about their payments to governments at country and project level, ref. Note 20 to the annual financial statements.

### **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.

Concedo is exposed to market risks relating to the oil price and US dollar exchange rate. The Company has interest-bearing debt and is affected by changes in interest levels. At present, Concedo does not have any contracts to hedge market risks.

### **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.

### **Political risks**

The activity on the NCS has within the last 50 years created huge value, helped by a stable and predictable political framework, with supportive governments and broad parliamentary support for the oil & gas industry.

In recent years, we have experienced growing scepticism to the oil & gas industry among politicians and climate activists, especially related to new acreage and the exploration tax regime. There was therefore an increasing risk that the regulatory scheme for the oil & gas industry might be changed. Just before the election in September 2021, the right-of-centre government headed by the Conservative Party announced it would propose certain amendments to the Norwegian petroleum taxation system. The new government, a coalition consisting of the Labour Party and Centre Party, supported the proposed tax changes and the amendments to the Norwegian petroleum taxation system were approved by parliament on 8 June 2022. This illustrates that there is political risk associated with conducting exploration activities on the NCS. It also illustrates that the main petroleum policy lines in Norway are supported by all the major parties.

Russia's war against Ukraine has led to a more positive view of the Norwegian oil & gas industry. The rapid reduction in the volume of Russian gas sold to Europe has contributed to an energy shortage in Europe and occasionally very high gas prices. The strong compatibility between energy sources and Norway's participation in the European power grid have ensured that high European power prices have also spread to Norway. Suddenly, people in Norway have understood the importance of the Norwegian oil & gas industry to their everyday life, and some of the scepticism towards the industry has decreased.

The political focus on the Norwegian oil & gas industry is now to «develop, not wind down». Hopefully, this focus will last for the next few decades.

### **Liquidity risks**

The Company has cash reserves and outstanding tax refunds, and the amended and renewed exploration financing facility provides financial flexibility until 2025. The Directors are monitoring the Company's liquidity and have a close dialogue with shareholders.

### **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. Large parts of the Company's costs are in NOK. Revenues from the sale of discoveries are often oil-linked, with an indirect USD exposure.

### **Risk of low oil and gas prices**

Low oil and gas prices have some positive effects for Concedo, as exploration costs tend to be significantly reduced, mainly due to lower rig rates. However, low prices also reduce the prices obtained for the sale of oil and gas discoveries. In the longer term, stable and quite high oil and gas prices are desirable, as this will increase and stabilize the value of oil and gas discoveries and make it easier to sell such discoveries at acceptable prices.

In early January 2022, the Brent oil price was approx. USD 80 per bbl. At the same time, after a gas price rally in the autumn of 2021 due to power shortage in Europe, the European gas price was approx. USD 145 per boe. After Russia's attack on Ukraine on 24 February 2022, European oil and gas prices increased significantly, with oil price peaks in March and June of approx. USD 125 per bbl, and a gas price peak of approx. USD 420 per boe in early March.

From June, the Brent oil price gradually trended downwards to approx. USD 80 per bbl at the year-end. The European gas price dropped to approx. USD 230 per boe in late March and decreased further to approx. USD 145 per boe in early June. From medio June, the gas price increased to a new peak of approx. USD 575 per boe in late August. After the peak, the gas price gradually declined to approx. USD 115 per boe at the year-end, mainly due to a surprisingly mild winter in Continental Europe.

During the first quarter of 2023, the Brent oil price has been quite stable with oil prices in the range of USD 75-90 per bbl, while the European gas price has fallen gradually from approx. USD 115 to USD 80 per boe.

Russia's war against Ukraine has been an eye-opener with regards to European dependency on Russian gas. The European countries are now focusing on reducing their dependency on Russian oil and gas by introducing maximum prices on Russian oil and building floating LNG import terminals in Germany. These efforts will benefit other European gas suppliers like Norway.

Going forward, due to the energy shortage and war in Europe and great compatibility between energy sources for power production, the risk of long-term very low oil and gas prices is less than it has been for many years.

### **Going concern**

The financial statements have been prepared based on the going concern assumption. In compliance with section 3-3a of the Norwegian Accounting Act, we confirm that the requirements for a going concern have been satisfied. The Company's equity position was strengthened in 2022 by an

oversubscribed share capital increase of NOK 30 million directed solely towards existing shareholders. Exploration costs in 2023 will be very low without any exploration wells and assets may be sold in the early fall effective from 1 January 2023. It is therefore the Board's opinion that the Company will have sufficient funds to support its operations throughout the year. The Board will consider the capital situation at the end of the year in connection with the drilling programme for 2024.

### Future exploration prospects

Important factors for maintaining the exploration activity on the NCS are good availability of acreage, access to infrastructure and data coverage. Significant exploration success in the future depends on a combination of improved knowledge, the use of new seismic technologies and the application of advanced digital analytics. Concedo has implemented and targeted these areas for its future exploration success.

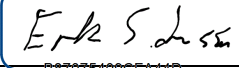
New discoveries provide the basis for continued activity, create major spin-offs for the rest of society, and will be important for future value creation. Concedo works hard to support technological progress within exploration. Digitalization provides better data and tools which contribute to increased geological understanding and enable the identification of new exploration concepts. We trust that these efforts will reduce the exploration risk and increase the number of discoveries. Its focus on exploration alone puts Concedo in a unique position.

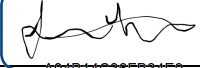
The Dugong discovery has given Concedo recoverable resources. We believe this asset, when sufficiently matured, can be sold at an attractive price, increasing Concedo's financial strength.


Concedo's exploration portfolio normally contains 10-20 licences due to annual licensing round awards and drop decisions. New opportunities appear all the time. The Company will continue to pursue the conversion of its licence portfolio prospects into drilling decisions.

The future commercial development of Dugong looks promising. We will continue our annual licensing round work to maintain a good portfolio. Financially, our strategy will still be to maintain strength and flexibility, making it possible to optimize the Company's assets.


Asker, 29 March 2023

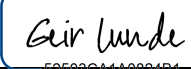
DocuSigned by:  
  
 B87075409CFA24D...  
 Erik Sverre Jenssen,  
 Chairman

DocuSigned by:  
  
 A94B14C36FB34E8...  
 Jonas Rydell, Director

DocuSigned by:  
  
 FC2C078819A8432...  
 Sandra Crane, Director

DocuSigned by:  
  
 2BBEF7552E64487...  
 Leif Christian Kvaal,  
 Director

DocuSigned by:  
  
 2450E04AACF64F8...  
 Nirav Dagli, Director

DocuSigned by:  
  
 52503CA1A0824B1...  
 Geir Lunde, CEO