



Interoil Exploration And Production ASA
C/o Advokatfirmaet Schjødt AS
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OUR REFERENCE
20/10729

YOUR REFERENCE

DATE
08.12.2021

Review of financial reporting

1. Introduction

Finanstilsynet has examined certain accounting topics related to the 2019 annual financial statements and half year 2020 interim financial statements of Interoil Exploration and Production ASA ("Interoil"), in accordance with the Securities Trading Act section 19-1 subsection (2). The examination was not closed before filing of the 2020 annual financial statements. The issuer's restatement of prior period errors and improvements of disclosures therein, as agreed with Finanstilsynet, has hence also been evaluated. With this exception, neither the 2020 annual financial statements, nor subsequent interim reporting, have been included in Finanstilsynet's review. Reference is made to previous correspondence and meetings, most recently the issuer's final reply received on 26 October 2021.

Finanstilsynet hereby notifies the issuer of its decision to impose an order in connection with this review in accordance with the Public Administration Act section 16, to without undue delay and within 4 weeks at the latest give a corrective note by way of publicly disclosing the additional information further specified in section 3 of this decision.

The issues addressed in the examination have included:

- A. The accounting for property, plant and equipment and exploration and evaluation assets, including capitalization, classification, impairment testing and disclosures.
- B. The accounting and related disclosures for an arrangement with the Columbian oil services company SLS Energy regarding the oilfield LLA-47, for which the correct accounting treatment of certain aspects is not clear, due to the absence of an IFRS that specifically applies to the transaction.
- C. The accounting for, and disclosures of, certain commitments and contingent liabilities relating to uncertain tax positions.
- D. The classification and presentation of bond loan borrowings, and the inclusion of a proforma statement.

Interoil's responses and presentation of facts during the examination have often been incomplete or contradictory, which possibly may be ascribed to deficiencies in the internal control over financial reporting. For several of the above-mentioned issues, Interoil had in its response to Finanstilsynet's evaluation, confirmed that it in its future financial reporting would both correct several material errors identified under the examination and/or give additional required disclosures. Interoil did not report its 2020 annual financial statements until 25 June 2021, almost two months later than the deadline set by law. In its response to the fines imposed by Finanstilsynet for this infringement, Interoil explained that an unfortunate conjunction of effects caused by the pandemic, the departure of its CFO and challenges in assimilating newly acquired businesses had resulted in a situation where it was particularly inapt to complete the annual financial statements, including the verifications and reviews required for audit of the relevant accounting information. In its following review of the corrections made in Interoil's 2020 annual financial statements, Finanstilsynet observed that Interoil in several instances had:

- i. not made the agreed corrections or additional disclosure (several instances),
- ii. made corrections that differed from those previously agreed on, and that would need to be based on facts that deviate from those presented to Finanstilsynet during the examination (classification and presentation of bond loan borrowings),
- iii. previously presented facts to Finanstilsynet that were inconsistent with the information in the 2020 annual financial statements, and led Finanstilsynet to conclude there were additional errors in the historic financial statements (impairment of assets).

Furthermore, in its 2020 annual financial statements note 5 *Restatement of financial statements*, Interoil did not include all of the corrections of prior period errors, and in no account gave sufficient information on the nature of those errors and the effect to each financial statement line item affected, as required by IAS 8 *Accounting policies, changes in accounting estimates and errors* paragraph 49. Such information is important for users to understand the financial performance and financial position of Interoil.

In its response to Finanstilsynet on 26 October 2021 Interoil explained that the instances above in i)-iii) occurred as a result of lack of communication and changes in the organisation (related to restatement of comparatives in the Q2 2021 report of impairment and restatement of the bond loan borrowings as current) and the administration's materiality judgements regarding the sufficiency of information in the 2020 financial statements (related to capitalised expenses and exploration costs, presentation of non-current assets, disclosures related to the impairment testing and disclosures related to the SLS arrangement). While maintaining such a materiality assessment, Interoil has confirmed its intention to comply with a final decision by Finanstilsynet, and provide a corrective note if so required.

2. Issues addressed in the examination

A. Property, plant and equipment and exploration and evaluation assets

Finanstilsynet addressed Interoil's accounting for property, plant and equipment and exploration and evaluation assets, including capitalization, classification, impairment testing and disclosures.

Capitalized expenses and exploration cost

Although no new wells were drilled in 2019, capitalized expenditure was up from the previous year. According to IFRS 6 *Exploration for and evaluation of mineral resources* paragraph 9, entities must determine an accounting policy specifying which types of expenditures are expensed, and which are capitalized. Once determined, such policies must be applied consistently over time.

As disclosed in its significant accounting policies, Interoil employs the successful efforts method of accounting for exploration and evaluation expenditures. In note 2.8.2 it further discloses that:

"Geological and geophysical costs are expensed as incurred, except for costs connected to areas with proven reserves which are capitalized." Interoil confirmed that the single largest capitalized expenditure in 2019 was a USD 2 million geochemical study related to its work commitments to the wider LLA-47 exploration area, and not activity related to the Vikingo-1 well.

Interoil concurred that it had been incorrect to capitalize this geochemical study, as the wider LLA-47 block predominantly is in an exploration stage. The error amount to an increase in the 2019 loss before tax by 27% and the negative total equity by 23%. Interoil corrected this as a material error in its Q3-2020 interim financial statements, restating comparatives for 2019 and giving disclosures in accordance with IAS 8.42 and IAS 8.49.

The same was not the case in Interoil's 2020 annual financial statements. While the error is included in the disclosure of restatements of prior period errors, neither the descriptions of the nature nor the disclosure of the financial statement line effects in note 5 are in accordance with the requirements in IAS 8.49. Finanstilsynet orders Interoil to include such complete information in the corrective note.

Presentation of non-current assets

In its disclosures of significant accounting policies, Interoil includes separate descriptions for the accounting policies applied for exploration and production rights assets, development assets, oil production assets and other assets. Aside from financial assets, all other of Interoil's non-current assets are in its 2019 annual financial statements presented in the single line item "Property, plant and equipment", making up 80% of Interoil's total assets. Exploration and evaluation assets have neither been reported by Interoil as a separate line item in the balance sheet, nor as a separate class of assets in the disclosures, since the withdrawal from Peru in 2011. Furthermore, no change had been made to this as a result of Interoil's acquisitions in Argentina in 2019.

The accounting for assets within the scope of IFRS 6 are significantly different than for assets within the scope of IAS 16 or IAS 38; requirements for recognition are different, one is depreciated

and the other not, requirements for impairment testing differ and so on. To understand the results, financial position and to make reasonable projections, it is important for users of the financial statements to be informed about the amount of exploration and evaluation assets capitalized in the balance sheet. As required by IFRS 6.25 entities must treat exploration and evaluation assets as a separate class of assets in the disclosures, and it may also be required to include additional line items in the balance sheet, cf. IAS 1 *Presentation of financial statements*.

Interoil acknowledged that the La Brea Block and Cañadón Ramírez Block acquired in 2019, were exploration and evaluation assets within the scope of IFRS 6. On closer evaluation of the allocation of purchase price of the acquisition in Argentina to the individual assets, Interoil concluded that more than 10% of book value of the assets presented in the line item property, plant and equipment were acquisition costs related to these two exploration and evaluation assets. In Interoil's 2020 annual financial statements, both the presentation in the balance sheet and the disclosures were adjusted to reflect this conclusion, and the comparative information for 2019 was restated accordingly. To enable users to sufficiently understand this restatement in the balance sheet and in the disclosures, Finanstilsynet is of the opinion that information on this restatement should have been given in accordance with IAS 8.49 and included in the separate disclosures on the restatements in note 5. Finanstilsynet orders Interoil to include such complete information in the corrective note.

Impairment testing

Finanstilsynet addressed issues relating to Interoil's 2019 annual financial statements and its half year 2020 interim financial statements, for when IAS 36 *Impairment of assets* require the recoverable amount to be determined, the requirements for measuring the recoverable amount, as well as certain matters relating to disclosures.

In Q2-2020 the Covid-19 pandemic and Saudi Arabia's decision to continue producing petroleum at previous levels despite falling oil prices, caused oil prices to drop. Interoil's realized oil price for the quarter was USD 26,7 per barrel, making Interoil temporarily close down production from certain of its oil fields because it was not economically viable with the prevailing oil price. Short to medium term financial forward oil prices for the periods 2020-2025, also dropped significantly at the time. IAS 36.8-17 specify when the recoverable amount of property, plant and equipment shall be determined. As prescribed therein, entities shall assess at the end of each reporting period whether there is any indication that an asset may be impaired and such indicators should take into account both external and internal sources of information, cf. IAS 36.9 and IAS 36.12. In an impairment test employing value in use, recoverable amount shall be measured using cash flow projections based on reasonable and supportable assumptions, giving greater weight to external evidence, cf. IAS 36.33a. Disclosures of both key assumptions and relevant sensitivities may be required, cf. IAS 36.132d) i) and IAS 1.129. Further, IAS 36.130e requires entities to disclose the estimated recoverable amount of any individual asset or cash generating unit for which an impairment loss has been recognized during the period.

In its 2019 annual financial statements, Interoil disclosed that the impairment test employed a flat forward price assumption of USD 62 for the period 2020 to 2028, which was identical to the future

oil price assumptions applied in the previous year's impairment test. The forward price assumptions were based on management budgets, benchmarked against a set of price forecasts collected from oil consultancy firms. Disclosures of sensitivities were not given. An impairment of USD 1,5 million was recorded for the property, plant and equipment related to its LLA-47 license. No disclosure was given of the estimated recoverable amount of this license, indicating the remaining book value at risk of further impairment. In its half-year 2020 financial statements InterOil informed that: "*The Company has revised its short-term price estimates in order to assess potential impact on cash flows and valuation of assets (such as PP&E and investments)*". While InterOil's statements indicated that an updated impairment test had been performed per 30 June 2020, InterOil has confirmed that this had not been done, since the developments in oil prices were viewed as short term volatility, and it was not deemed possible to confidently assess the potential consequences of the significant drop in oil prices caused by Covid-19 and other geopolitical actions.

InterOil has agreed that it should have viewed the events of Q2-2020 as impairment indicators and performed an updated impairment test at the time. Further, InterOil has concurred that it in its impairment testing should have used available financial forward prices, rather than price forecasts, for forward periods where such liquid prices are available (typically 2-3 years forward). InterOil has confirmed that it will change its future accounting practices for determining forward oil prices to be used in cash flow projections, and also provided Finanstilsynet with revised impairment tests of its property, plant and equipment for historic financial reporting periods included in the review. While InterOil's assessment was that the effects on impairment testing at year end 2019 were small, its impairment test per 30 June 2020 resulted in a partial impairment of the Mana license in Columbia of approx. USD 1,5 million and a recoverable amount of zero calculated for the newly acquired Santa Cruz licenses in Argentina. While it was informed that the impairment of Mana was reversed in subsequent 2020 interim periods, InterOil's 2020 annual financial statements disclosed that the resulting impairment of assets related to the Santa Cruz license was approximately USD 1,3 million. InterOil's failure to perform impairment test per 30 June 2020 had consequently caused an overstatement of its assets by a total of USD 2,8 million at the time. Finanstilsynet did not perform a detailed review of these updated impairment tests, but requested that corresponding restatements and additional disclosures be made in InterOil's subsequent financial reporting.

In its letter of 9 November 2020, InterOil explained that the missing disclosures according to IAS 1 and IAS 36 in its annual and interim financial reporting, cf. IAS 34 Interim financial reporting paragraph 15A, was due to lack of administrative oversight and confirmed that it would rectify this in future financial reporting. Nevertheless, in its 2020 annual financial statements InterOil did not give required disclosures in accordance with IAS 36.130e for impairments made on the LLA -47 license in the 2019 comparative period. Furthermore, Finanstilsynet notes that the sensitivity disclosures in the 2020 annual financial statements were significantly poorer than those presented in InterOil's Q3-2020 interim financial statement. Relative to the 2021 half year report, InterOil's CEO had in meeting held on 10 May 2020 confirmed that InterOil would restate its financials for the comparative period half year 2020, to be aligned with the impairment testing forwarded to Finanstilsynet. However, in its 2021 half year report, InterOil did not restate comparatives for the material errors in its 2020 half year financial figures, as required by IAS 8.

Finanstilsynet orders Interoil to include such complete disclosures and restatements, omitted from its 2020 annual financial statements and 2021 half year interim financial statements, in the corrective note.

B. Arrangement with SLS Energy

Background

Interoil has interests in several exploration and production licenses in Colombia and Argentina. For most licenses, Interoil shares the interests in the license with one or more partners. Separate legal entities have not been established for each license, and the rights and obligations of the partners and the exploration and production activities are conducted through legal agreements. In its review, Finanstilsynet has looked at how a specific arrangement with SLS Energy ("SLS") relating to the LLA-47 block in Colombia was accounted for, and how related disclosures were given.

Interoil's latest successful exploration effort was the drilling of the Vikingo-1 well on the LLA-47 block in Colombia. Investment cost of the well, including later workovers, was USD 7,2 million in total. Production commenced in 2017, and the well has since made a significant part of Interoil's total production. Interoil was originally awarded a 100% operated exploration license for this block from Colombian authorities ("ANH") in 2010. In 2016 Interoil made an agreement with the Colombian drilling and oil services company SLS to not only carry out the drilling, but also fund part of the investment for a number of exploration wells, including the Vikingo-1 well. In return SLS would receive a share of the profits generated from any oil produced from any successful effort ("working interest").

The arrangement with SLS is in the legal form of a participation agreement. Per the agreement SLS will assume responsibility for 60% of the investment for the Vikingo-1 well. In return SLS will initially receive 43% of the revenue from the well and 22% when the cost of the investment has been recovered. Interoil will continue as the operator and holder of the 78% working interest under the agreement and be responsible before ANH for all the obligations derived from it. Interoil continued to be solely responsible for implementing, directing and controlling the operations, and will always have the autonomy to carry out the activities of evaluation, development and production related to the entire LLA-47 license area. SLS on the other hand, is in the agreement classified as a silent partner.

Irrespective of their legal form, agreements may in substance convey rights and obligations that requires a significant amount of judgement in concluding which accounting is most appropriate. Depending on the facts and circumstances, agreements to share exploration and production risk in the oil industry may for example be accounted for as joint operations within the scope of IFRS 11 *Joint Arrangements*, as the sale of part of an asset, or as an alternative form of financing arrangement that may also give rise to a separate financial liability.

Entities are required to disclose the accounting policies used that are relevant to an understanding of the financial statements, along with the judgements that management has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognized in the financial statements, cf. IAS 1 *Presentation of financial statements* paragraphs 117 and 122.

Interoil's assessment

In note 2.16 of its 2019 annual financial statements, Interoil discloses the following accounting principles for unincorporated joint arrangements: "*The Group recognizes, on a line by line basis, its share of the assets, liabilities and expenses of a jointly controlled operation, along with the Group's income from the sale of its share of the output and liabilities and expenses incurred in relation to the venture.*" Such accounting principles are consistent with IFRS 11 *Joint arrangements* paragraph 20.

Interoil views the arrangement with SLS as a farm out. Interoil decided to apply a split approach; in part accounting for the arrangement as a loan within the scope of IFRS 9 *Financial Instruments*, and in part accounting according to IFRS 11 *Joint Arrangements*. The reason being that Interoil considers the SLS participation in funding 60% of the well investment in Vikingo-1, in substance is a loan. Interoil has accounted for this loan as a short term interest free financial liability, at amortised cost. The effect is that Interoil in its own financial statements capitalized the full USD 7,2 million investment as its own property, plant and equipment, and at the same time recognized a financial liability to SLS equal to the partners share of the investment obligation. SLS invoiced Interoil for 100% of the drilling work, but Interoil only paid 40% initially and recorded the remaining 60% as the beforementioned financial liability to SLS. SLS's increased share of cash flows from the sales of oil until the investment was recouped by the end of 2019, was then gradually used to offset the financial liability.

As regards Interoil's 78% working interest share of LLA-47, Interoil has viewed it as constituting a share in a joint operation and accounted for its share of assets, liabilities, revenue and costs in accordance with IFRS 11.20. Consistently with this view, Interoil until 25 June 2021 communicated to Finanstilsynet that the working interest revenue share from LLA-47 was presented net in its financial statements. However, on 25 June 2021, Interoil informed Finanstilsynet that due to an erroneous accounting entry, the SLS's working interest share of revenues was presented as the company's own, with an offsetting entry as cost of goods sold. Interoil had the view that such gross presentation was not in compliance with IFRS 15 *Revenue from contracts with customers*. In its 2020 annual financial statements, Interoil presented sales and cost of goods sold consistently with such an opinion, and restated sales and cost of goods sold for the year 2019. The effect was a reduction in total reported revenues for 2019 of approx. 4%. In note 5 *Restatement of financial statements* in its 2020 annual financial statement, Interoil gave the following disclosure of the nature of the correction of the prior period error "*To show Interoil net revenue, reclassifying SLS partner participation*".

Finanstilsynet's assessment

Finanstilsynet has not been forwarded a complete account of the facts and circumstances. Based on the information from Interoil, Finanstilsynet has been able to conclude that:

- i. The accounting Interoil has applied for the arrangement with SLS in its 2019 annual financial statements, among other recognizing 100% of the sales of oil produced from the well as its own revenue, differs substantially from the generic accounting principles for jointly controlled operations that was disclosed in note 2.16 in the 2019 annual financial statements.
- ii. Interoil's explanation of the rights and obligations of Interoil and SLS under the arrangement, is not consistent with the two parties having joint control. Hence, Finanstilsynet is of the opinion that no specific IFRS standard applies directly to the arrangement. In such a case management shall in accordance with IAS 8.10 use its judgement and the hierarchy of sources described in IAS 8.11, in developing and applying an accounting policy that is relevant and reliable.
- iii. Finanstilsynet's assessment is that the SLS arrangement was material, and that sufficient information was not given in Interoil's 2019 annual financial statement for users to understand the accounting treatment, cf. IAS 1.117. Furthermore, relevant disclosure of the judgement that Interoil exercised in accounting for the SLS arrangement, should have been given in Interoil's financial statements in accordance with IAS 1.122. Such disclosure should have included descriptions of the relevant facts and substance of the arrangement and the accounting policy applied.
- iv. The disclosures of the nature and effects of the restatement of errors in revenues and cost of goods sold in prior periods given by Interoil in note 5 of its 2020 annual financial statements, were not sufficiently detailed to be in compliance with the requirements in IAS 8.49.

Finanstilsynet has further noted that Interoil subsequently has entered into several similar agreements for funding of well drilling on other blocks in Columbia and Argentina, both with SLS and another oil services company. Finanstilsynet is of the opinion that disclosure in accordance with IAS 1.117 and 122 continues to be of high relevance for users to understand Interoil's financial reporting.

Finanstilsynet orders Interoil to include the complete information as described above, in compliance with IAS 1.117 and 122 and IAS 8.49, in the corrective note.

C. Commitments and contingent liabilities

IAS 37 Provisions, Contingent Liabilities and Contingent assets sets out the requirements for when to recognize a provision and when to disclose a contingent liability. A provision is recognized when the entity has a present obligation as a result of a past event, an outflow of economic benefits is probable, and a reliable estimate can be made of the obligation. A contingent liability on the other hand does not meet these criteria and is therefore not recognized in the financial statements, but instead disclosures are provided, unless an outflow of economic benefits is remote. IAS 37.86 sets

out the disclosure requirements for contingent liabilities, including an estimate of its financial effect.

Contractual commitments

Interoil's disclosures in the 2019 annual financial statements included certain unrecognized contractual commitments towards The National Hydrocarbons Agency (ANH) in Colombia. Specifically relating to the requirement to drill additional wells in the Altair and LLA-47 license areas in Columbia within the deadline set in the exploratory program, altogether estimated at USD 30 million as at year end 2019. Although the licenses were set to expire in April 2020 and February 2021 respectively for Altair and LLA-47 (both later extended by approx. 1 year due to Covid 19) no further wells were planned within the remaining license term. In its 2019 annual financial statement Interoil disclosed that there is a risk that these drilling commitments may generate liquidity constraints. Due to the magnitude and potential impact of failing to adhere to such commitments, Finanstilsynet requested Interoil to forward certain additional information and explain its rationale for not recognizing the contractual work commitments as a liability. Finanstilsynet's review of contractual commitments did not cover periods after 31 December 2019.

Interoil's assessment is that there is no present obligation because Interoil is not in breach of any of the requirements under the agreement, financial guarantees or otherwise, and Interoil can still avoid the cost by for example farming out its interest prior to the set deadline. Finanstilsynet takes note of Interoil's assessment.

Uncertain tax positions

The Columbian tax authorities (DIAN) has filed two tax claims on the 2011 income tax of Interoil. i) Rejection of deductibility of exploration expenditure, and ii) Rejection of recharged administrative expenses from the group's head office. The court ruled against Interoil in October 2018 in relation to the latter, but a conclusion has not yet been reached with DIAN relating to either claim.

In the 2019 annual financial statements, Interoil treated the tax claims as contingent liabilities. Interoil disclosed certain information on the process of the claims in those financial statements but had not included information of the potential financial effect. Interoil communicated that the financial effect for the two claims was at the time estimated to be USD 3,7 million in a worst-case scenario, including interest and fines, divided approximately 39% and 61% respectively to i) and ii) above. Finanstilsynet asked Interoil for the correct details and questioned whether sufficient disclosures had been given in accordance with IAS 37.86. Interoil acknowledged the omission of the financial effects disclosures in its 2019 annual financial statements and stated that potential effects would be fully disclosed in Interoil's 2020 financial statements.

In the 2020 annual financial statements, Interoil provided for both tax claims. In its letter of 26 October 2021 Interoil clarifies that a recent court decision sets precedence for both claims, consequently Interoil considers the possibility of losing the disputes as probable and has therefore

recognised a provision of USD 1 355 thousand relating to claim i) and USD 2 106 thousand relating to claim ii). Finanstilsynet takes note of this.

D. Classification and presentation of bond loan borrowings

Background

Per 31 December 2019 Interoil had a bond loan in the amount of approx. USD 38 million. In December 2019 Interoil announced plans to strengthen its balance sheet through a debt-to-equity conversion. The plan was approved by bondholders on 30 December 2019 and by shareholders in an extraordinary general meeting on 16 January 2020. As part of this plan, 35% of the bond loan outstanding principal amount plus its respective accrued interest was converted to equity, the maturity date for the remaining bonds were extended by six years to 2026 and with interest rate fixed at 7.5%. The original maturity of the bond loan, before the renegotiation, was January 2020.

IAS 1.69 states that an entity shall classify a liability as current when the liability is due to be settled within twelve months after the reporting period, or it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. According to IAS 1.72(b) an entity shall classify a loan as current when the loan is due to be settled within twelve months after the reporting period even if an agreement to refinance or reschedule payment on a long-term basis is completed after the reporting period and before the financial statement are authorised for issue. Furthermore, according to IAS 1.73 when the refinancing is not at the discretion of the entity, the obligation should be classified as current.

Interoil's assessment

In its 2019 annual financial statements, Interoil classified the USD 38 million bond loan as non-current in its entirety. Finanstilsynet questioned whether such classification of the bond loan was in accordance with IAS 1. Interoil concurred that the part of the bond loan that was settled in January 2020, equal to 35% of the original loan, should have been classified as a current liability as of 31 December 2019. Interoil stated that it would amend its 2020 financial statements accordingly.

With regards to 65% of the bond loan subject to being extended in the refinancing, Interoil communicated that its rationale for classifying this part as non-current was based on the following;

- Interoil assumes that shareholders are part of the company's decision-making bodies and therefore the requirements for shareholder's approval were within the company's control, thus it did not prevent Interoil from having the unconditional right to defer payment.
- By 31 December the Board had communicated with majority shareholders who confirmed their intention to vote in favour of the bond restructuring.

Although still not agreeing fully on all accounts with Finanstilsynet's assessment described below, Interoil communicated that it would comply and make corresponding changes to the presentation and disclosures in its 2020 annual financial statements.

Finanstilsynet's assessment

It is Finanstilsynet's assessment that the bond loan that was settled in January, 35% of the original loan, was a current liability as of 31 December 2019 as it was due to be settled within twelve months after the reporting period in accordance with IAS 1.69(c) and it was not subject to refinancing.

Based on the facts presented by Interoil in its letter of 10 March 2021 it is Finanstilsynet's view that for the 65% of the loan being refinanced, the right to defer settlement was not unconditional, cf. IAS 1.69(d), when the general assembly had not approved of the arrangement that is required for the deferral. To be an unconditional right in such a case, there must be a formal and legally binding agreement that gives the entity an unconditional right to defer settlement. Therefore, the refinancing was not at the discretion of the entity, cf. IAS 1.73, as of 31 December 2019 as the bond holders had only offered the shareholders this solution, which shareholders as of 31 December 2019 had not accepted. Thus, no formal and legally binding agreement existed. It is therefore Finanstilsynet's conclusion that 65% of the bond loan also should have been classified as current as of 31 December 2019.

Finanstilsynet, however, notes in the 2020 annual financial statements, that only USD 17 million of the USD 38 million loan have been reclassified as current. It appears that the action as communicated by Interoil to Finanstilsynet in its letter of 10 March 2021, is not consistent with the subsequent presentation and disclosures in the 2020 annual financial statements. Interoil clarifies in its letter of 26 October 2021 that the bond loan in its entirety should have been restated as current, but due to changes in the organisation this was overseen. Furthermore, that the adjustment of the full loan will be made in the corrective note if required and comparatives in future reporting will be amended.

Further, Finanstilsynet notes that Interoil has not disclosed this material prior period error in accordance with the disclosure requirements in IAS 8.49 in the 2020 financial statements.

Finanstilsynet orders Interoil to include the complete information in the corrective note.

Proforma statement

Interoil has also disclosed a pro forma statement showing an alternative financial position of the entity as if the debt-to-equity conversion had been accounted for before the year end. The proforma statement was placed between the consolidated cash flow statement and the notes of its 2019 annual financial statements. Finanstilsynet is of the opinion that including a proforma statement, after the primary financial statements, that shows the recognition of a transaction which is not accounted for in accordance with IFRS does not result in fair presentation in accordance with IAS 1.15 as it does not faithfully represent the effects of the transaction as of 31 December 2019. Finanstilsynet points out that the transaction is a non-adjusting post balance sheet event and in accordance with IAS 10.21 and IAS 1.76 it should be disclosed as such. Finanstilsynet further notes that in the subsequent events disclosure in note 28 the full effect of the transaction in 2020 is disclosed, whereas in the proforma statement only parts of the accounting effect is shown. Carving out only

parts of the debt-to-equity transaction in a proforma may also make the information provided on the transaction less understandable for a user.

Interoil's assessment is that IFRS does not prohibit an over-disclosure if management believes it provides further clarity. Nevertheless, Interoil concurs with Finanstilsynet's assessment that including the proforma statement within the primary financial statements was not in accordance with IFRS and will amend its future reporting accordingly. Finanstilsynet notes this for the record.

3. Decision

Pursuant to the Securities Trading Act section 19-1 subsection (2) and Regulations to the Securities Trading Act of 29 June 2007 no. 876 section 17-8 b) and c), Finanstilsynet orders Interoil Exploration and Production ASA to issue a corrective note including the following:

- A. Disclosure of the correction of the error in the prior period financial year 2019 relating to erroneous capitalization of the geochemical study on the LLA-47 license in accordance with IAS 8.49. Disclosure of the restatement in the prior period financial year 2019 relating to the separation of exploration and evaluation assets from property, plant and equipment, in accordance with IAS 8.49. Restatements and disclosures in accordance with IAS 8 of material prior period errors in its half year 2020 impairment testing related to the Mana and Santa Cruz assets, that were omitted from Interoil's 2021 half year interim financial statements. Disclosures of Interoil's impairment tests relating to both the requirements in IAS 1.129 for sensitivities and IAS 36.130e for the recoverable amount of impaired assets, that had been omitted from its 2019 and 2020 annual financial statements.
- B. Disclosure of the accounting policy applied to the SLS arrangement for the LLA-47 license, as required by IAS 1.117. Furthermore, the significant judgements that management has made in the process of applying this accounting policy should be disclosed in accordance with IAS 1.122. In addition, disclosure of the nature of the material prior period error in accordance with IAS 8.49(a), related to Interoil's accounting for revenues and cost of goods sold under the SLS arrangement.
- D. Disclosure of the agreed correction of the error, reclassifying the bond loan in its entirety from non-current to current, in the prior period financial year 2019 in accordance with IAS 8.49.

The corrections made and disclosed in the corrective note shall be reflected correspondingly in future financial reporting that is affected by the corrections. The corrective note shall be published without undue delay and within 4 weeks from the date of Finanstilsynet's decision and shall contain information about the circumstances leading to the publication of the corrective note. The corrective note shall always accompany Interoil's annual and interim financial statements for the affected periods.

4. Concluding remarks

Finanstilsynet has not considered whether the above matters are subject to the securities legislation's provisions regarding the requirement to disclose inside information in accordance with the

Regulation (EU) No 596/2014 on market abuse article 17 no. 1; cf. article 7; cf. Securities Trading Act section 3-1 subsection (1). Finanstilsynet expects Interoil to consider its requirement to disclose inside information on a continuous basis.

Finanstilsynet's decisions may be appealed under section 28 of the Public Administration Act. The Ministry of Finance is the appeal body. The appeal should be directed to Finanstilsynet. The time limit for appeal is three weeks from the date that this letter is received. The parties have the right to acquaint themselves with the documents of the case under the provisions of sections 18 and 19 of the Public Administration Act.

If the decision is appealed, an application can be made for deferred implementation of the decision, cf. the Public Administration Act § 42.

Finanstilsynet has forwarded a copy of this letter to the issuer's appointed auditor and to Oslo Børs.

On behalf of Finanstilsynet

Anne Merethe Bellamy
Deputy Director General

Lars Jacob Braarud
Head of Section

This document has been electronically approved and does not require handwritten signatures.