north energy

Report Financial statement IFRS

annual report 2008

Photo: Vesterålen, October 2009 (Christina Søgård)

Photo: Sandnes, Andøy, October 2009 (Christina Søgård)

Income statement

Amounts in NOK '000	*Note*	**2008**	2007
Payroll and related cost	*4.2*	**-41,969**	-3,309
Depreciation and amortisation	*16*	**-2,013**	-63
Exploration expenses		**-62,789**	-17,565
Other operating expenses	*5.18*	**-34,031**	-3,621
Operating profit (loss)		**-140,802**	-24,558
Finance income	*17*	**1,925**	296
Finance costs	*17*	**-1,405**	-48
Net financial items		**520**	248
Profit (loss) before tax		-140,282	-24,310
Income tax credit	*15*	**101,005**	13,701
Profit (loss) for the year		**-39,277**	**-10,609**
Profit per share for the part of the profit (loss) for the year that is allocated to the companies shareholders (NOK per share)			
Earnings per share	*12*	-119.06	-707.27
Diluted earnings per share	*12*	-119.06	-707.27

Note 1 to 24 are integrated parts of the financial statement.

Balance sheet at 31 December

Amounts in NOK '000	*Note*	**31/12/2008**	31/12/2007
ASSETS			
Deferred tax asset	*15*	**0**	0
Equipment	*16*	**15,597**	3,899
Long-term receivables	*6.14*	**4,507**	1,500
Total non-current assets		**20,104**	5,399
Tax receivable from refund	*15*	**101,005**	13,701
Other receivables	*6*	**7,717**	2,506
Cash and cash equivalents	*7.19*	**13,331**	18,692
Total current assets		**122,053**	34,899
Total assets		**142,157**	40,298
EQUITY			
Paid-in capital	*8*	**161,531**	46,619
Retained earnings	*10*	**-52,588**	-10,609
Total equity		**108,943**	36,010
LIABILITIES			
Pension liabilities	*20*	**1,818**	128
Total non-current liabilities		**1,818**	128
Trade and other payables	*11*	**31,396**	4,160
Total current liabilities		**31,396**	4,160
Total liabilities		**33,214**	4,288
Total equity and liabilities		**142,157**	40,298

Note 1 to 24 are integrated parts of the financial statement.

Alta, 23. of November 2009

Johan Petter Barlindhaug Chairman of the Board	Kristin Ingebrigtsen Member of the Board	Harriet Hagan Member of the Board
Eirik F. Hansen Member of the Board	Leif Finsveen Member of the Board	Arnulf Østensen Member of the Board
Hans Kristian Rød Member of the Board	Erik Karlstrøm CEO	

STATEMENT OF RECOGNISED INCOME AND EXPENSE

1. January to 31. December

Amounts in NOK '000	Note	**2008**	2007
Actuarial gain/loss pensions (after tax)	20	**-2,701**	0
Net income recognised directly in the equity		**-2,701**	0
Profit (loss) for the year		**-39,277**	-10,609
Total recognised income, expense and adjustments		**-41,978**	-10,609

Note 1 to 24 are integrated parts of the financial statement.

Statement of changes in equity
Amounts in NOK '000

	Note	Number of shares	Share capital	Share premium account	Other paid-in capital	Retained earnings	Total equity
Paid in capital registered 2007		15,000	1,500	119	0	0	1,619
Paid in capital, not registered in 2007		0	0	0	45,000	0	45,000
Total result for 2007		0	0	0	0	-10,609	-10,609
Equity at 31 December 2007		15,000	**1,500**	**119**	**45,000**	**-10,609**	**36,010**
Reduction of capital (reduction of face value)		0	-1,350	0	1,350	0	0
Paid in capital in 2007, registered in 2008		180,000	1,800	43,200	-45,000	0	0
Increase of capital		386,122	3,861	104,320	0	0	108,181
Employees warrant share issue	4	0	0	0	6,730	0	6,730
Actuarial gain/loss pension 2008	20	0	0	0	0	-2,701	-2,701
Total result for 2008		0	0	0	0	-39,277	-39,277
Equity at 31 December 2008		581,122	**5,811**	**147,639**	**8,080**	**-52,587**	**108,943**

Note 1 to 24 are integrated parts of the financial statement.

CASH FLOW STATEMENT

Amounts in NOK '000	*Note*	**2008**	2007
Cash flow from operating activities			
Profit (loss) before tax		**(140,282)**	(24,310)
Adjustment:			
Tax refunded	*15*	**13,701**	-
Depreciation and amortisation	*16*	**2,013**	63
Warrant share issue	*4,8,9*	**10,887**	2,429
Changes in trade and other payables		**4,241**	1,471
Difference between pension cost and payments		**(1,029)**	(84)
Changes in other accrual accounting items		**4,182**	(2,035)
Net cash flow from operating activities		**(106,287)**	**(22,466)**
Cash flow from investing activities			
Purchases of tangible fixed assets	*16*	**(13,712)**	(3,961)
Payments of long-term receivables		**(2,832)**	(1,500)
Net cash flow from investing activities		**(16,544)**	**(5,461)**
Cash flow from financing activities			
Net cash flow from share issue		**108,181**	46,619
Net change in overdraft facilities	*11*	**9,289**	**-**
Net cash flow from financing activities		**117,470**	**46,619**
Changes in cash and cash equivalents		**(5,361)**	18,692
Cash and cash equivalents at 1 January	*7*	**18,692**	-
Cash and cash equivalents at 31 December	*7*	**13,331**	18,692

Note 1 to 24 are integrated parts of the financial statement.

Note 1 Accounting Policies

Statement of compliance

North Energy AS is a Norwegian Company with head office in Alta. The Company's only business segment is exploration of oil and gas on the Norwegian continental shelf. On the 2nd of November 2009, the Board of Directors proposed to change the type of company from AS to ASA.

The financial statements are presented in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. This is the first year with presentation in accordance with IFRS, and financial statements are in compliance with IFRS 1. The figures for 2007 and 2008 are converted to IFRS. The required information according to IFRS 1 and recommended by Oslo Stock Exchange, is shown in a separate note (note 24).

The financial statements are approved by the board of directors and CEO for publication on 23 November 2009.

Basis for preparation

These consolidated financial statements have been prepared on a historical cost basis.

Functional currency and foreign currency transactions

Functional currency

The financial statements are presented in NOK, which is the functional currency of the company.

Foreign currency transactions

Foreign currency transactions are translated into functional currency using the exchange rates at the transaction date. Monetary balances in foreign currencies are translated into NOK at the exchange rates on the date of the balance sheet. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement. Foreign exchange differences arising in respect of operating business items are included in operating profit in the income statement. Exchange differences arising in respect of financial assets and liabilities are recorded as financial items in the income statement.

Equipment

Equipments are stated at historical cost less accumulated depreciation and any impairment charges. Linear depreciations over the period of use are calculated, regulated for potential impairments. Expected period of use for non-current assets are reviewed annually. Where the period differ significantly from previous estimates, depreciation periods are changed accordingly. Ordinary repair and maintenance costs are recognised in the income statement during the financial period in which they incur. The cost of major renovations is included in the asset's carrying amount when it is probable that the Company will derive future economic benefits in excess of the originally assessed standard of performance of the existing asset. Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount and are included in operating profit. Major assets with different expected useful lives are reported as separate components. Each component is depreciated on a straight line basis over its expected useful life and adjusted for any impairment charges.

Intangible assets

Exploration costs for oil and gas properties

The Company uses the successful efforts method to account for exploration costs. All exploration costs, with the exception of acquisition costs of licenses and drilling costs of exploration wells, are expensed as incurred. Drilling costs of exploration wells are temporarily capitalised pending the evaluation of the potential existence of oil and gas reserves. If reserves are not found, or if discoveries are assessed not to be commercially recoverable, the drilling costs of exploration wells are expensed. Costs of acquiring licenses are capitalised and assessed for impairment at each reporting date. All investments regarding development of commercial oil or gas fields are capitalised.

Farm-in/Farm-out

A farm-in/farm-out implies that an owner of a share of a license ("the farminor") transfers the whole share or a part of the share to another participant ("the farminee"), and "the farminee" commits to perform a duty in return. "The farminee" may for instance commit to start exploration, to drill a well or to develop an oil or gas field. The "farminor" will have to undertake to transfer the whole or a part of a share to "the farmenee".

"The farminee" shall consecutively recognise in the balance sheet or post as outgoings, exploration and developing costs in accordance with the used accounting principles, for instance the "Successful Effort" method. "The farminee" do not book receivables or costs in connection with the company's access to oil and gas shares. "The farminee" may therefore recognise costs concerning wells and equipment in the balance sheet, but not costs related to transfer of property. "The farminor" recognises neither drilling cost nor cost related to equipment. In an farm-in/farm-out agreement there are not made allocations concerning future liabilities in the period of exploration and evaluation. "The farminor" do not recognise gains or losses in the accounts. In the period of development, a farm-in/farm-out agreement will be considered as a fair value transaction, based on costs incurred by "the farminee".

party. If a loss related to transactions gives evidence of reduction in net recoverable value of current assets or impairment of non-current assets, the loss will be recognised immediately.

The accounting of a farm-in/farm-out agreement is performed when the benefits are transferred from "the farminor", which normally will happen when necessary public approvals are given.

Ownership in Joint Ventures

The accounting of the company's investments in joint ventures, including joint operations (oil and gas licenses), is performed by entering the company's parts of assets, liabilities and cash flow of the business. The company is recognising its part of the joint ventures individual income and expenses, assets and liabilities, and cash flow, under the actual items in the financial statements. At the end of 2008, the company had not capitalized any costs related to exploration. There are thus no assets related to the licences in the balance sheet.

The company do not recognise parts of gains and losses from the joint venture coming from the company's acquisition assets from the joint venture, before it sells the asset to a third party. If a loss related to transactions gives evidence of reduction in net recoverable value of current assets or impairment of non-current assets, the loss will be recognised immediately.

Impairment of non-current assets

Equipment and other non-current assets are reviewed for potential impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For the purposes of assessing impairment, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. The value in use is determined by reference to discounted future net cash flows expected to be generated by the asset. A previously reported impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount, however, not to an extent higher than the carrying amount that would have been determined had no impairment loss been recognised in prior years.

Leases (as lessee)

Leases where the Company assumes substantially all the risk and rewards ownership of the asset, are classified as finance leases. The Company do not have any such leases.

Leases where the lessor still has substantial part of risk and dividends related to ownership, are classified as operating leasing. Payments of operating leasing are linearly charged as expense over the leasing period.

Receivables (non-current)

Non-current receivables are recognised by using amortised cost, using a method of effective interest. The difference between nominal value and recognised value is amortized over the term of the receivables.

Receivables (current)

At the first time recognition in the balance sheet, current receivables are valued at their anticipated realisable value. At subsequent recognition the receivables are valued to anticipated recoverable value. A valuation allowance for impairment of receivables is made when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

Cash and cash equivalents

Cash and the equivalents comprise cash at hand, deposits with banks and other short-term highly liquid investments with original maturities if three months or less.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing. After initial recognition, interests-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the interest bearing liabilities. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Income taxes

Income taxes on the profit and loss for the year comprises tax payable, tax receivable from the refundable tax value of exploration expenses, and changes in deferred tax. Tax related to equity transactions has been recorded directly to equity and not in the income statement.

Deferred tax assets and liabilities are calculated on the basis of existing temporary differences between the book value and tax value of assets and liabilities, together with any tax losses carried forward at the year end. Deferred tax assets and liabilities are calculated based on the tax rates and tax legislation that are adopted or substantially adopted on the day of the balance sheet.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are not discounted.

Deferred tax assets and liabilities are netted if it is legally accepted to net the periodical assets and liabilities for tax, and if assets and liabilities for deferred tax are levied by the same tax authority in the same taxable unit.

Pension plans

Pension plans are financed through payments to insurance companies, and are determined based on periodic actuary estimates. The Company has a defined benefit plan. This is a pension plan which defines the pension payment that the employee will receive when retiring. The pension payment is generally influenced by one or several factors, such as age, years of service and salary.

The recognised liability is the present value of the defined benefits on the balance-sheet day subtracted by the fair value of the pension funds, adjusted for non-allocated variances in estimates and possible non-allocated costs linked to previous periods' pensions-earnings. The pension liability is estimated yearly by an independent actuary, based on a linear method. The present value of the defined benefits are determined by discounting the estimated future payments by the interest of an obligation issued by a company with high credit-rating in the same currency as in the benefit will be paid, and within the terms approximately equal to the terms of the related pension liability.

Variances in estimates due to new information or changes in actuary assumptions are recognised directly in the equity through the statement of recognised income and expense in value within the period in which they arise. Changes in the benefits of the pension plan are consecutively charged as costs or revenues in the income statement, if not the rights of the new pension plan are determined by that the employee remain in service over a specific period of time. If so, costs of changed benefits are amortized linearly through the period of earning.

Severance benefit

Severance benefit will be paid when conditions of employment is terminated by the company before time of retirement, or when an employee voluntarily accepts end the conditions of employment by receiving such benefit. The company recognises the severance benefit when it evidently is committed to end the existing conditions of employment according to a formal, detailed plan, which the company cannot withdraw, or to give severance benefit as a result of an offer given to initiate voluntary resignation. Severance benefits are with due date later than 12 months after the day of the balance sheet are discounted to present value.

Profit sharing and bonus plans

The company recognises a liabilities and a cost related to bonus and profit sharing based on a calculation which allows for the profit that is allocated to the share holders after certain adjustments. The company recognises an allowance when there is a liability in accordance with a contract or former practice that creates a self-imposed liability.

Shares-based salary

The company has share-based salary plans where the company receives service from the employees as a return for cash or equity instruments (share options) in the company. Fair value of the services received from the employees in return for assigned share options, are recognised as cost. The total amount which is being recognised over the contribution time is based on fair value of the assigned share options:

- included every condition related to the market trend
- reduced for the effect of potential conditions of recovery which is not related to the market trend (e.g. objective of profitability, increase in sales or being employd over a certain period of time)
- reduced for the influence of potential conditions which is not conditions of recovery (e.g. demands of employee savings).

Conditions of recovery which is not related to the market trend effects the number of share options which is expected to be assigned. The total amount is recognised as expense over the earning period (which is the period when all specific condition of recovery has to be fulfilled). On each date of the balance sheet the company revaluates the estimates of number of share options which is expected to be earned. The potential effect of of the changes in the original estimates is recognised in the statement of profit and loss, and with corresponding adjustment in the equity.

When the share options are exercised, the company issues new shares. The compensation received by exercising the share options reduced for direct cost related to the transactions, is recognised to credit on the account of share capital (nominal value) and premium on shares, when the share options are exercised.

Provisions

A provision is recognised when the company has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of recourses embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Related-party transactions

All transactions, contracts and business relations with related parties are carried out on normal market based conditions. Loan to employees is given on favourable interest level, se note 14.

Earnings per share

Calculation of earnings per share is based on result related to ordinary shares by using weighted average of number of shares in the period, reduced of weighted average og treasury shares in the period. The calculation of diluted result per share is corresponding with ordinary result per share, but gives simultaneously effect on all diluted shares in the period, i.e.:

- Result related to ordinary shares is adjusted for changes in result which would be a consequence of the conversion of the diluted potentially ordinary shares.
- Weighted average of number of extraordinary shares which would have been outstanding, provided converting of all potential diluted shares, increases the average number of ordinary shares.

Segment information

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

Equity

Transaction costs (after tax) related to equity transactions are recognised directly in the equity.

Cash flow statement

Cash flow statement is made up after the indirect method.

Events after the reporting period

Events that are both positive and negative and that prove that the situation was existing on the date of the balance sheet (events which result in adjustments) are separated from events that indicate that the situation occurred after the date of the balance sheet (events which do not result in adjustments). The financial statements is only adjusted to reflect the first mentioned situation, though it anyway may occur needs for information about situations which is not adjusted.

IFRA and IFRIC endorsed by EU/EØS but still not implemented

IFRS' and IFRIC's endorsed by EU/EØS up to date and which are not mandatory per 31. December 2008 is not implemented by the company. That relates to IFRS 8, revised IAS 23, revised IAS 27, revised IFRS 3, amendments to IFRS 2 an IFRIC 12, 15 and 16. Based on assessment so far, these standards and interpretations are not supposed to have substantial effect on the reported figures.

Note 2 Financial risk management

Financial risk factors

Market risk

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

Furthermore, the company is exposed to certain types of financial risks. Management involves accounts receivable, loans, accounts payable and drawing rights to financial institutions. The company does not undertake any placings beyond employee loans and bank deposits. The business activities of the company involve exposure to credit risk, interest rate risk, liquidity risk and currency risk.

Credit risk

The company is mainly exposed to credit risk pertaining to tax refunds according to Petroleumsskatteloven together with employee loans. The exposure to credit risk is monitored on an ongoing basis. Investments are only allowed in bank deposits. As all parties have high credit rating, there are no expectations of either party not being able to fulfil their liabilities. There were no material concentration of credit risk on the day of the balance sheet. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. The company holds no accounts receivable or loans in foreign currency.

Interest rate risk

The company's exposure to interest risk is related to bank deposits and usage of credit facilities in the future. The company is exposed to interest rate risk as part of its normal business activities and the aim is to keep this risk at an acceptable level.

By the turn of the year 08/09 the company had a cash credit right of MNOK 10 (0 by the turn of the year 07/08). This has been settled during Q1 of 2009 and has been replaced by a revolving drawing right with a limit of MNOK 300.

The interest rate of the drawing right was equal to NIBOR + 0,55 % by the turn of the year 08/09. There are no deposited securities for this drawing right. The company holds no other interest-bearing debt.

Liquidity risk

Liquidity risk is the risk of being uncapable to service one's financial liabilities as they fall due. The company's financial liabilities are short term and fall due within 0 - 6 months. The company has no placing of its liquidity beyond bank deposits i Norwegian banks.

Currency risk

The company has defined NOK as its functional currency. The company has currency exposure in its business activities because parts of the company's costs are USD based. The company has not entered into any agreements to reduce its exposure to foreign currencies. A weak Norwegian krone will influence the revenues negatively, as to the contrary with a strong Norwegian krone.

Risk pertaining to capital management

The company's aim for management of capital structure is to secure the business in order to yield profit to shareholders and contributions to other interest groups. In addition, a capital structure at its optimum will reduce the costs of capital.

To maintain or change the capital structure in the future, the company can pay dividends to its shareholders, repay share capital to shareholders or issue new shares or sell assets/licences to reduce debt. The company may buy its own shares. The point of time for this is dependent of changes in market prices.

Note 3 Use of estimates

The preparation of the financial statements in conformity with IFRS, requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions are based in historical experience and various other factors that are considered to be reasonable under the circumstances. Actual results may differ from these assumptions. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision affects that period, or in the period of revision and future periods if the revision affects both current and future periods.

Estimates and assumptions which represent a considerable risk for substantial changes in recognised value on assets and liabilities during the next fiscal year, are presented below.

a) Tax refund (Petroleumsskatteloven)

The company is subject to the additional tax rules of Petroleumsskatteloven where, among other factors, the company is reimbursed for 78 % of its costs pertaining to exploration costs. This includes both direct and indirect costs. The company uses a distribution formula for indirect exploration costs based on the company's assumed consumption of resources pertaining to exploration and non-exploration. The distribution formula is based on estimates from the company, and the Norwegian taxation authorities may have a different understanding.

b) Pensions

The present value of pension liabilities depends on several different factors determined by different actuary assumptions. The assumptions used to estimate net pension costs (revenue) include discount rate. Changes in these assumptions will influence the recognised value of the pension liabilities.

The company determines a suitable discount rate by the year end. This is the rate in which to determine the present value of future estimated outgoing cash flows needed to settle the pension liabilities. When determining a suitable discount rate the company considers the interest rate of registered bonds of high quality issued in the same currency as the pension payment, and with the approximately same due date as the related pension liability.

Other pension assumptions are partly based on market terms. Additional information is given in note 20.

Note 4 Payroll and related cost

Amounts in NOK '000	**2008**	2007
Salaries	**23 375**	296
Warrant share issue	**10 887**	2 429
Payroll tax	**1 360**	0
Pension costs (Note 17)	**3 533**	128
Other personnel expenses	**2 814**	456
Total	**41 969**	3 309
Average number of employees	**31**	1

Salaries and other benefits to the Board of Directors and management 2008:

	Directors' fees	Salaries	Bonus	Pension	Other	Total
Management:						
Erik Karlstrøm (CEO)		1 965	267	106	123	2 461
Astrid Tugwell		1 090	183	58	103	1 433
Svein Johansen		1 540	250	104	16	1 910
Lars Tveter		902	163	35	50	1 151
Torleiv Agdestein		600	92	45	105	842
Knut Aaaneland		808	133	60	4	1 006
Vigdis Wiik Jacobsen		563	131	94	22	810
The board of Directors:						
Johan P. Barlindhaug (chairman of the board)	213					
Leif W. Finsveen (board member)	74					
Harriet Hagan (board member)	26					
Eirik F. Hansen (board member)	100					
Kristin Ingebrigtsen (board member)	26					
Hans K. Rød (board member)	26					
Tore Andreassen (board member)	84					
Harald Karlstrøm (board member)	84					
Anna M. Aursund	21					
Eirik Sørgård	5					
Torgrim Rørtveit (board member)	5					
Total	**663**					

Information of loans to employees, incl. interest advantage	**loan per 31.des**	**Interest advantage**	**Rate of interest**
Erik Karlstrøm	1 920	57	2 %
Torleiv Agdestein	1 992	7	2 %

The company's CEO has an agreement to an annual salary of 1.6 million. Other benefits include free car, loan interest rate advantage, as well as regular allowances to cover telephone and internet. In addition, he is included in the company's general bonus agreement as determined by the directors. The bonus is limited to 1/3 of fixed salary. If CEO has to resignate at the request of the board of directors, North Energy shall provide salary equivalent to two years' gross fixed salary. If CEO resigns, there is no salary agreement on behalf of the company. CEO also has an early retirement scheme from the earliest age of 62 until the ordinary retirement age (67 years), where the pension is 67% of final salary paid. When it comes to CEO's subscription rights it is referred to note 9 for further information.

The Company has entered into a performance related bonus. The bonus is linked to the achievement of specified parameters for each of the executive management's responsibility. Both financial and non-financial parameters are used. Bonuses are limited to 1/3 of fixed salary, distributed 50/50 in salary and Warrant share issue and are paid once a year.
The earning of the salary bonus will take place prior to the earning of the subscription rights.

Salaries and other benefits to the Board of Directors and management 2007:

Amounts in NOK '000	Directors' fees	Salaries	Bonus	Pension	Other	Total
Management:						
Erik Karlstrøm (CEO)		267		128	346	741

It was not allocated any costs relating to directors' fees for 2007.

Note 5 Other operating expenses

Other operating expenses include:

Amounts in NOK '000	**2008**	2007
Travelling expenses	**4,862**	284
Lease expenses	**4,122**	49
Consultant's - and other fees	**14,012**	496
Advertising costs	**2,670**	91
Other administrative expenses	**8,365**	2,700
Total	**34,031**	3,620

Remuneration to the auditor is included in other operating expenses and allocated as specified below:

Amounts in Nok '000	**2008**	2007
Audit	**95**	
Fee fiscal assistance	**22**	
Fee attestation	**4**	
Fee assistance share issue		67
Total	**121**	**67**

Note 6 Receivables

Long-term receivables include:

Amounts in NOK '000	**2008**	2007
Loan to employees (note 4 and 14)	**3,912**	1,500
Deposit	**420**	0
Pension funds (note 20)	**175**	0
Total	**4,507**	**1,500**

Short-term receivables include:

Amounts in NOK '000	**2008**	2007
Outstanding value added tax	**4,664**	1,999
Prepaid expenses	**3,053**	507
Total	**7,717**	**2,506**

Note 7 Cash and cash equivalents

Amounts in NOK '000	**2008**	2007
Bank deposits	**13,331**	18,692
Cash and cash equivalents included in the balance sheet	**13,331**	**18,692**
Restricted cash for withheld taxes from employees salaries include above	**1,817**	133

Note 8 Paid-in capital

The share capital is NOK 5 811 220 divided into 581 122 shares, each with a par value of NOK 10.

Amounts in NOK '000	**2008**	2007
Share capital	**5,811**	1,500
Share premium	**147,639**	119
Share capital transferred to other paid-in capital	**1,350**	0
Paid-in capital registered in 2008	**0**	45,000
Warrant share issue	**6,730**	0
Total paid-in capital	**161,531**	**46,619**

North Energy has one class of shares with equal rights for all shares.
The Board of Directors are authorized to issue shares to key employees within a limit of 6 % of number of shares.
There are 140 052 free-standing warrant share issues after the general meeting in January 2009 and share issue in the first half-year of 2009. The warrant share issues entitle to subscribe for shares to 80 % of the issue price.

Shareholders that own more than 1 %	**Number of shares**	**Owner's share (%)**
Origo Kapital AS	75,066	12.92
SKS Eiendom AS	60,231	10.36
JPB AS	60,108	10.34
Onshore Group Nordland AS	48,369	8.32
KapNord Fond AS	43,000	7.40
Pitch Oil AS	42,415	7.30
Alta Kraftlag AL	35,469	6.10
Petroinvest Nord AS	28,000	4.82
Perpetuum Invest AS	26,748	4.60
Helgeland Vekst AS	22,423	3.86
Sør Varanger Invest AS	14,697	2.53
Oljeinvest Alta AS	13,385	2.30
Helgelandbase AS	13,334	2.29
Nord-Troms Kraftlag AS	13,333	2.29
Per Strand Eiendom AS	7,999	1.38
Erik Karlstrøm	6,797	1.17
Harald Nilsen AS Entreprenørforretning	6,690	1.15
Luostejok Kraftlag AL	6,667	1.15
Nordkyn Kraftlag AL	6,667	1.15
Repvåg Kraftlag AL	6,667	1.15
Total	538,065	92.59
Other (less than 1% ownership)	43,057	7.41
Total number of shares	581,122	100.00

Shares owned by the Board of Directors, CEO and Management (both directly and indirectly)

CEO, Erik Karlstrøm	6,797	1.17
Chairman of the board Johan P. Barlindhaug through JPB AS	60,108	10.34
Torleiv Agdestein	2,265	0.39
Svein Johansen	2,265	0.39
Astrid Tugwall	2,265	0.39
Lars Tveter	2,265	0.39
Knut Aaneland	2,265	0.39

Note 9 Warrant share issue

The company has entered into a contract with the CEO and six of the company's leading employees which gives them the right to subscribe for shares in the company. The contract gives the CEO, according to further terms pertaining to future share issue in 2009, the right to subscribe for a share in the company equal to 2,5 %. The remaining six have the right to subscribe for a share up to 0,5 % of the company until the coming share issue in 2009 at a rate at NOK 250 per share.
The company has no legal or implicit liabilities to buy back or settle the warrant share issues in cash with the exception of the warrant share issues pertaining to the company's CEO. The CEO may chose between a settlement in cash or the right to subscribe to shares in accordance with the warrant share issues entered into.
The discharge rate of the warrant share issues appear in the table below. The earning of the warrant share issues is subject to the employees remaining in service of the company 1 - 1,5 years after the contribution. The term of the share options is equal to the maturity period which is three years from the date of the subscription.
Movement in estimated number of outstanding subscription rights pertaining to employees, and discharge rate:

	2008		2007	
	Share options	**Average discharge rate in NOK pr. share**	**Share options**	**Average discharge rate in NOK pr. share**
Per 1. January	62,119	154.77	0	0
Assigned	37,272	151.83	62,119	154.77
Exercised	-18,122	10.00	0	0
Expired	0	0	0	0
Per 31. December	**81,269**	**173.67**	62,119	154.77
based on cash	55,322		62,119	

None of the 81,269 share options (2007: 62,119 share options) were exercisable in the year of allocation. Exercised options in 2008 resulted in 18,122 shares issued at NOK 10 per share. The market terms at the time of discharge were NOK 250 pr. share.

Date of discharge and discharge rate for outstanding warrant share issues by year end:

Expiry date	**Discharge rate in NOK pr. share**	**Share options 2008**	**2007**
25-Feb-11	10	0	6,797
08-Jan-12	10	10,858	2,863
30-Jun-12	10	14,988	14,988
30-Jun-12	250	55,423	37,471
		81,269	62,119

The fair value of the allocated warrant share issues of the period is estimated with Black-Scholes option pricing-model. For the warrant share issues with a discharge rate of NOK 10 fair value is estimated at NOK 240 pr. share while the warrant share issues with a discharge rate of NOK 250 have an estimated fair value within the range of NOK 61 - 85 pr. share.
The most important input data is the listed price on the date of discharge which is estimated at NOK 250 for the shares that are exercisable at NOK 10 pr. share, and NOK 375 for the shares that are exercisable at NOK 250 pr. share. The discharge rates shown above, standard deviation of expected share profit of 60 %, expected dividends of 0 %, expected term of three years and a yearly risk free rate of 2,6 % (2007: 4,6 %). Volatility is measured by comparing companies on the OSE as the company is not listed.
Note 4 shows the total costs in the income statement of warrant share issues to employees.

Note 10 Retained earnings

Balance at 1 January 2007	0
Profit (loss) for the year	-10,609
Balance at 1 January 2008	**-10,609**
Profit (loss) for the year 2008	-39,277
Estimate variance pension	-2,701
Balance at 31 December 2008	**-52,588**

Note 11 Trade and other payables

Amounts in NOK '000	**2008**	2007
Trade payables	**5,712**	1,471
Public duties payable	**2,104**	135
Allocation warrant share issue CEO	**8,374**	2,429
Other payables	**5,917**	125
Liabilities to financial institutions	**9,289**	0
Total	**31,396**	4,160

Liabilities to financial institutions relates to a drawing right with the limit of MNOK 10. There is not deposited securities for this drawing right. The drawing right is in the first quarter of 2009 settled and replaced with a revolving drawing right ("Exploration loan") with a limit up to NOK 300 million.

Note 12 Earnings per share

Earnings per share is calculated by dividing the profit attributable to equity holders of the company by weighting average number of ordinary shares in issue during the year.

Amount in NOK '000	**2008**	2007
Profit attributed to equity holders of the company	**(39,277)**	(10,609)
Weighted average number of ordinary shares in issue	**329,898**	15,000
Earnings per share (NOK per share)	**(119.06)**	(707.27)
Diluted earnings per share	**(119.06)**	(707.27)

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding for the effect of converting all potential shares that could lead to dilution.

The dilution effect is in accordance with IAS 33 paragraph 41 not presented in the income statement, as the conversion to ordinary shares would have reduced the loss per share.

Note 13 Dividend per share

There have not been disbursed dividends for 2007 or 2008

Note 14 Related parties

The company has through the 2007 and 2008 had a limited management contract with Origo Nord AS, which is a related party to the company's largest shareholder, Origo Kapital AS. The agreement is based on market terms.

The company's third largest shareholder, JPB AS, is controlled by the chairman of the board, Johan P. Barlindhaug.

The company has provided loans to management members	**2008**	2,007
Erik Karlstrøm	1,920	1500
Torleiv Agdestein	1,992	0
	3,912	1,500

The loans are provided at 2% interest rate and payback of 10 years. The loans are secured by mortgage on real property. If termination of employment, the employees have to settle the remaining outstanding loan amount.

Note 15 Tax

Specification of temporary differences, losses carried forward and deferred tax, onshore:

Amounts in NOK '000	**2,008**	2,007	Variance
Losses carried forward	**-758**	-758	0
Deferred tax base	**-758**	**-758**	0
Net deferred tax, 28 %	**-212**	-212	0
Valuation allowance	**212**	212	0
Total deferred tax asset/liability onshore	**0**	**0**	0

Specification of temporary differences, losses carried forward and deferred tax, offshore:

Amounts in NOK '000	**2,008**	2,007	Variance
Losses carried forward	**-15,200**	-5,231	-9,969
Temporary differences in exploration licenses, capitalised exploration and equipment	**3,724**	1,084	2,640
Temporary differences on pensions	**-1,643**	-128	-1,515
Other temporary differences	**-90**	-40	-50
Deferred tax base	**-13,209**	**-4,315**	-8,894
Net deferred tax liability (78%)	**-10,303**	-3,366	-6,937
Valuation allowance	**10,303**	3,366	6,937
Total deferred tax liability offshore	**0**	**0**	0
Total deferred tax	**0**	**0**	0

Accumulated exploration expenses and tax receivable from refund tax value exploration expenses, offshore:

Amounts in NOK '000	**2,008**	2,007
Accumulated exploration expenses for tax refund	**129,494**	17,565
Accumulated tax receivables/refund 78%	**101,005**	13,701
Total tax receivable from refund tax value exploration expenses	**101,005**	**13,701**

Tax receivables will be received within 12 months after the balance sheet date and are thus classified as short-term receivables.

Specification of income tax credit:

Amounts in Nok '000	**2,008**	2,007
Change in deferred tax asset onshore	**0**	0
Change in deferred tax offshore	**0**	0
Tax receivable from refund tax value exploration expenses current year	**101,005**	13,701
Adjusted tax receivable from refund tax value exploration expenses last year	**0**	0
Total income tax credit	**101,005**	13,701

Reconciliation of effective tax rate:

Amounts NOK '000	**2,008**	2,007
Profit (loss) before tax	**-140,282**	-24,310
Expected income tax 78%	**109,420**	18,962
Adjusted tax effects (28% - 78%) of the following items		
Permanent differences	**-983**	-1,304
Change in valuation allowance for deferred tax asset	**-6,937**	-3,957
Total income tax credit	**101,500**	**13,701**

Note 16 Property, plant and equipment

Amounts in NOK '000	**Equipment machinery etc.**
Acquisition cost at 1 January 2007	-
Additions	3,961
Disposals	-
Acquisition cost 31 December 2007	3,961
Depreciation	(63)
Accumulated depreciation at 31 December 2007	(63)
Net carrying value at 31 December 2007	**3,899**
Acquisition cost at 1 January 2008	3,961
Additions	13,712
Disposals	-
Acquisition cost at 31 December 2008	17,673
Accumulated depreciation at 1 January 2008	-63
Depreciation	-2,013
Accumulated depreciation at 31 December 2008	-2,075
Net carrying value at 31 December 2008	**15,597**

Property, plant and equipment are depreciated with a percentage of 10-33 percent

Note 17 Financial items

Finance income

Amounts in NOK '000	**2008**	2007
Interest income on bank deposits	**1,023**	244
Other financial income	**805**	0
Foreign currency gain	**97**	52
Total finance income	**1,925**	296

Finance costs

Amounts in NOK '000	**2008**	2007
Interest expense	**354**	0
Foreign currency losses	**1,051**	48
Total finance costs	**1,405**	48

Note 18 Other lease agreements

Annual lease expense consist of ordinary lease payments, as specified below:

Amounts in NOK '000	**2008**	2007
Office rent (including joint costs)	**3,439**	47
Lease of equipment	**33**	
Lease of transport equipment	**650**	2
Total lease expenses (note 5)	**4,122**	49

Note 19 A Financial instruments

Valuation of financial instruments in the balance sheet are as follows:

Per 31 December 2008 :

Amounts in NOK '000	Loans and other receivables
Assets:	
Long-term receivables	4,507
Tax receivable refund exploration expenses	101,005
Cash and cash equivalents	13,331
Total	**118,843**

Amounts in NOK '000	Other financial liabilities valued to amortised cost
Liabilities:	
Trade and other payables	23,022
Total	**23,022**

Per 31 December 2007 :

Amounts in NOK '000	Loans and other receivables
Assets:	
Long-term receivables	1,500
Tax receivable refund exploration expenses	13,701
Cash and cash equivalents	18,692
Total	**33,893**

Amounts in NOK '000	Other financial liabilities valued to amortised cost
Liabilities:	
Trade and other payables	1,731
Total	**1,731**

The fair value of long-term receivables are calculated by discounting cash flows with a rate equal to the alternative borrowing rate of 5.0% (2007: 5.5%). The discount rate correspond to 10-year fixed-rate loans with the addition of relevant credit rating. The fair value of the tax receivable from refund tax value exploration costs are calculated by discounting cash flows with a interest equal to an expected interest of 3.0% (2007: 3.5%).

The fair value of long-term receivables and the tax receivable from refund tax value exploration costs:

	2008	2007
Long-term receivables	**3,298**	1,254
Tax receivable from refund tax value exploration expenses	**98,063**	13,238
Total fair value	**101,361**	14,492

The fair value of accounts payable and other current liabilities are equal to the carrying values because the effect of discounting is not significant. Fair value is calculated by discounting cash flows with a discount rate of 5.0% (2007: 5.5%).

Note 19 B Creditworthiness of financial assets:

Receivables

The company does not have a system that separates receivables and loans on counterparty credit rating. They are working with a holistic solution that will provide similar information and follow-up in 2009. Long-term receivables are mainly concerning the employees, tax receivable towards the Norwegian tax authorities, while other claims essentially are prepaid expenses.

Bank deposits

Amounts in Nok '000	**2008**	2007
No external credit rating	**0**	0
A	**0**	0
AA	**13,331**	18,692
Total	**13,331**	18,692

Note 20 Retirement benefit obligations

Actuarial assumptions:

Amounts in NOK '000	**2008**	2007
Discount rate	**4.50%**	4.50%
Expected rate of return on plan assets	**5.50%**	5.50%
Expected annual salary increases	**4.50%**	4.50%
Expected annual adjustment of pension benefits	**4.25%**	4.50%
Expected rate of G- regulation	**4.25%**	4.25%
Table employed for calculation of liability	**K2005**	K2005
Table employed for calculation of disability	**IR02**	IR02

Average expected period of service until retirement age

Average life expectancy (the number of years) for a person retiring when he / she turns 67 years

-Female	**47**	
-Male	**44**	

Average life expectancy (the number of years) 20 years after the balance sheet date for an individual who retire when he/she turns 67 years:

-Female	**28.0**	
-Male	**24.0**	

Expense recognized in profit or loss

Amounts in NOK '000	**2008**	2007
Current service cost	**3,335**	128
Interest cost	**5**	0
Expected return on plan assets	**-77**	0
Social security cost	**270**	0
Total expense recognized in profit or loss	**3,533**	128

Specification of recognized liability:

Amounts in NOK '000	**2008**	2007
Present value of funded obligations per 31.12	**5,963**	128
Estimated fair value of plan assets per 31.12	**4,320**	0
Net obligations	**1,643**	**128**

An individual pension plan

Net obligations are classified in the balance sheet:

	2008	2007
Other long-term receivables	**175**	
Pension liabilities	**1,818**	128
Net pension obligation	**1,643**	**128**

One individual pension plan is over funded with 175 at the end of 2008. The over funding will be used to cover future liabilities, but not liabilities concerning other pension plans that the company has.
The amount is classified as long-term receivable.

Movement in the liability for defined benefit obligations

Amounts in NOK '000	2008	2007
Defined benefit obligations at 1 January	**128**	0
Current service cost	**3,335**	128
Interest cost	**5**	0
Actuarial gains/(losses)	**2,495**	0
Liability for defined benefit obligations at 31 December	**5,963**	128

Movement in fair value of plan assets for defined benefit obligations:

Amounts in NOK '000	2008	2007
Fair value of plan assets at 1 January	**0**	0
Expected return on plan assets	**77**	0
Actuarial gains/(losses) on plan assets	**-206**	0
Employer contributions	**4,449**	0
Fair value of plan assets at 31 December	**4,320**	0

Plan assets are comprised as follows	2008
Shares	**4.5 %**
Short-term bonds	**30.7 %**
Bank deposits	**13.2 %**
Long-term bonds	**28.8 %**
Property	**16.8 %**
Other	**6.0 %**
Sum	**100.0 %**

	2008
Actual return on plan assets	**1.50%**

	2009	2008
The company's anticipated contributions to funded plans coming year	**6,630**	4,449

The company has established an occupational pension insurance.
The arrangement fulfils the requirements made by law of mandatory occupational pension.

Note 21 Legal matters

In the ordinary course of business, the company may become involved in legal discussions and disputes. If necessary, provisions will be made to cover the expected outcomes when it is probable that a liability has occurred and the amount is able to be reasonably estimated.

It is not anticipated that there will be any significant liabilities related to contingent liabilities.

Note 22 Events after the balance sheet date

The board of directors were on 8. January 2009 given authority to increase the company's share capital by up to NOK 100,000 by issuing 10,000 new shares at NOK 10 pr. share. During Q2 2009 parts of the proxy was used, and 8,065 new shares were issued at NOK 10 pr. share. The term for exercising the remaining 1,935 shares expires on 2. March 2010.

After the General Meeting of the 8. January 2009 and completed share issue during the first half of 2009 there is at this date 140,052 independent subscription rights which grant the right to subscribe shares at 80 % of the next emission rate.

The board of directors were on 17. June 2009 given authority to increase the company's share capital by up to NOK 920,000 by issuing 92,000 new shares at NOK 10 pr. share and at terms of subscription determined by the board of directors. The authority will be used to issue shares as a part of the company's incentive program for the CEO and other leading employees. The proxy runs until the common General Meeting of 2010, though at the latest of 30. June 2010.

At the same General Meeting on 17. June 2009 the board of directors were given authority to increase the company's share capital by up to NOK 40,000 by issuing 4,000 new shares at NOK 10 pr. share and at terms of subscription determined by the board of directors. The proxy will be used to issue new shares as a part of the company's bonus program for employees. The proxy runs until the common General Meeting of 2010, though at the latest of 30. June 2010.

In November 2009 the company entered into an agreement to buy 100 % of the shares in 4Sea Energy AS. The agreed purchase price is MNOK 50. The settlement is planned as a private placing toward existing shareholders in 4Sea Energy AS. The issue is to be considered at an extraordinary General Meeting on 9. December 2009.

In addition, North Energy has entered into an agreement with Centrica about the purchase of 12 % of PL 433 together with an agreement with Statoil about the purchase of 15 % of PL 385 in 2009. For the agreement with Centrica there has been made a payment to an "escrow" account of MNOK 10 during October 2009. The amount will be released after the first drilling which is expected to be completed during Q2 in 2010.

The company's draw on the cash credit pr. 31.12.2008 is in its entirety settled during the first half of 2009. The company has entered into a loan agreement with a financial institution where the company is granted a revolving draw facility of MNOK 300. A guarantee has been given in tax refund claims according to Petroleumsskatteloven, together with production licenses the company holds at any given time. The loan is entirely drawn in NOK, and due date is on the last day each month.

At the extraordinary General Meeting on 9. December it is expected that the company will agree to convert the company from AS to ASA.

Note 23 Hydrocarbon resources

In 2007 Oslo Stock Exchange issued guidelines with respect to the reporting of oil reserves, contingent assets and profit from drilling activities. The guidelines require that companies that participate in exploration in Norway report yearly movements in reserves.

North Energy holds shares in 8 licences in the Norwegian Sea and the Barents Sea. Among these, PL 526 is off the coast of Helgeland, where North Energy has been granted exploration rights. The company was granted TFO'08 and four licences in the 20th licensing round (April 2009). The company has additionally farmed in 12 % of PL 433 from Centrica (July 2009) and 15 % of PL 385 from Statoil (November 2009).

All the licences are in an early stage where seismic surveys will be performed in order to decide if there will be drilled test-wells. It is not possible to decide if there are oil-reserves in this early stage. At present, there has not been made any test-drilling on any of the licences. This will at the earliest be done in 2010.

The below table gives an overview of the company's licences.

Licence	Interest	Operator	Main prospect
PL 385	15%	StaoilHydro	Jette
PL 433	12%	Centrica	Fogelberg
PL 510	20%	Centrica	Gunnstein
PL 526	40%	North Energy	Vågar
PL 518	30%	DONG	Tore Hund
PL 530	20%	GdF Suez	Ottar
PL 535	20%	Total	Tore Hjort
PL 536	20%	StaoilHydro	Astrid

Note 24 Adapt to IFRS

The accounting principles described in note 1 has been applied by the preparation of the financial statement of 31. December 2008 and the corresponding figures for 2007. The table with the accompanying notes explain how the transition in accounting policies from Norwegian GAAP to IFRS has influenced the company's financial position, financial earnings and cash flows.

Reconciliation of the balance sheet and equity.

Amounts in NOK '000	Note	NGAAP 01.01.08	The impact of transition to IFRS 01.01.08	IFRS 01.01.08	NGAAP 31.12.08	The impact of transition to IFRS 31.12.08	IFRS 31.12.08
ASSETS							
Deferred tax asset	d	1,385	-1,385	0	4,024	-4,024	0
Equipment		3,899		3,899	15,597		15,597
Long-term receivables	a,c	1,500	0	1,500	5,231	-724	4,507
Total non-current assets		6,784	-1,385	5,399	24,852	-4,748	20,104
Tax receivable from refund		13,701		13,701	101,005		101,005
Other receivables		2,506		2,506	7,717		7,717
Cash and cash equivalents		18,692		18,692	13,331		13,331
Total current assets		34,899	0	34,899	122,053	0	122,053
Total assets		41,683	-1,385	40,298	146,905	-4,748	142,157
EQUITY							
Paid-in capital	e	46,831	-212	46,619	161,743	-212	161,531
Retained earnings	e	-6,879	-3,730	-10,609	-46,234	-6,354	-52,588
Total equity		39,952	-3,942	36,010	115,509	-6,566	108,943
LIABILITIES							
Pension liabilities	a	0	128	128	0	1,818	1,818
Total non-current liabilities		0	128	128	0	1,818	1,818
Trade and other payables	b	1,731	2,429	4,160	31,396		31,396
Total current liabilities		1,731	2,429	4,160	31,396	0	31,396
Total liabilities		1,731	2,557	4,288	31,396	1,818	33,214
Total equity and liabilities		41,683	-1,385	40,298	146,905	-4,748	142,157

Notes to the reconciliation of the balance sheet and equity.

The impact on deferred tax/deferred tax asset of the adjustments described below is evident in note d) *a) Pensions*

The pension liability in the financial statement according to NGAAP as of 1. January and 31. December 2008 is lower than the real pension liability. This is due to accrued variances between estimated pension costs and actual pension costs (unamortised variances in estimates).
These items have an impact on the equity as of 1. January 2008 of TNOK -128, and of TNOK -2,542 as of 31. December 2008.
In the income statement of 2008, the pension liability will be reduced by TNOK 172 and in the corresponding figures of 2007 the pension liability will increase by TNOK 128.

b) Warrant share issues

The warrant share issues for employees pertaining to 2007 are incorporated into the balance sheet of 1. January 2008. The impact on equity as of 1. January 2008 is TNOK - 2,429. In the income statement the cost of wages of 2007 is increased by TNOK 2,429, and reduced by the same amount in 2008.

c) Employee receivables

Long-term receivables on employees are valued according to NGAAP at face value on 1. January 2008 and 31. December 2008. The receivables are valued according to IFRS at amortised cost. This has not produced an impact on equity, either as of 1. January 2008 or as of 31. December 2008. The difference between fair value and nominal value is considered to be a part of wages and is amortized over the terms of the loan. The use of amortised cost implies an increase in cost of wages for 2008 equal to TNOK 42, and a corresponding increase of financial income.

d) Tax

At the transition to IFRS the company has considered whether recognition of the deferred tax asset pertaining onshore and offshore deficit were to be recognised as it has been according to NGAAP. The company has reached the decision that it will not recognise the deferred tax asset until the probability of realisation is predominant. As a consequence of this the recognised deferred tax asset according to NGAAP is taken directly against equity at the transition.

		Deferred tax asset	
Amount in NOK '000	Note	01.01.08	31.12.08
According to NGAAP		1,385	4,024
Non-recognised deferred tax asset		-1,385	-4,024
According to IFRS		0	0

e) Reconciliation of equity

The adjustments above have the following impact on the equity of North Energy AS', after tax:

Amount in NOK '000	Note	01.01.08	31.12.08
Equity according to NGAAP		39,952	115,509
Pensions	a	-128	-2,542
Subscription rights	b	-2,429	0
Deferred tax asset	d	-1,385	-4,024
Equity according to IFRS		36,010	108,943

In addition, there has been a reclassification of share issue costs from paid-in to retained earnings of TNOK 212 for 2007 and 2008.

Reconciliation of the income statement for 2007 and 2008

Amount in NOK '000	Note	NGAAP 2007	The impact of transition to IFRS	IFRS 2007	NGAAP 2008	The impact of transitior to IFRS	IFRS 2008
Payroll and related cost	a,b,c	-752	-2,557	-3,309	-44,528	2,559	-41,969
Depreciation and amortisation		-63		0 -63	-2,013		0 -2,013
Other operating expenses		-21,186		-21,186	-96,820		-96,820
Operating profit (loss)		-22,001	-2,557	-24,558	-143,361	2,559	-140,802
Finance income	c	296		296	1,883	42	1,925
Finance costs		-48		-48	-1,405		-1,405
Net financial items		248	0	248	478	42	520
Profit (loss) before tax		-21,753	-2,557	-24,310	-142,883	2,601	-140,282
Income tax credit	a,b,d	14,874	-1,173	13,701	103,644	-2,639	101,005
Profit (loss) for the year		-6,879	-3,730	-10,609	-39,239	-38	-39,277

Reconciliation of the cash flow statement for 2007 and 2008

Amount in NOK '000	Note	NGAAP 2007	The impact of transition to IFRS	IFRS 2007	NGAAP 2008	The impact of transitioı to IFRS	IFRS 2008
Cash flow from operating activities							
Profit (loss) before tax	a,b,c	-21,753	-2,557	-24,310	-142,882	2,601	-140,282
Adjustment:							
Tax refunded		0		0	13,701		13,701
Depreciation and amortisation		63		63	2,013		2,013
Warrant share issue		0	2,429	2,429	10,887	0	10,887
Changes in trade and other receivables		1,471		1,471	4,241		4,241
Changes between expensed pension and payments	a	-212	128	-84	-939	-90	-1,029
Changes in other accrual accounting items	b,c	-2,035	0	-2,035	6,693	-2,511	4,182
Net cash flow from operating activities		-22,466	0	-22,466	-106,287	0	-106,287
Cash flow from investing activities							
Purchases of tangible fixed assets		-3,961		-3,961	-13,712		-13,712
Payments financial deposits		-1,500		-1,500	-2,832		-2,832
Net cash flow from investing activities		-5,461	0	-5,461	-16,544	0	-16,544
Cash flow from financing activities							
Net cash flow from share issues		46,619		46,619	108,181		108,181
Net change overdraft facilities		0		0	9,289		9,289
Net cash flow from financing activities		46,619	0	46,619	117,470	0	117,470
Changes in cash and cash equivalents		18,692		18,692	-5,361		-5,361
Cash and cash equivalents at 1 January		0		0	18,692		18,692
Cash and cash equivalents at 31 December		18,692	0	18,692	13,331	0	13,331

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Independent auditor's report

To the shareholders and Board of directors of North Energy AS

Report on the financial statements

We have audited the accompanying financial statements of North Energy AS which comprise the balance sheet as of 31 December 2007 and 2008 and the income statement, statement of changes in equity and cash flow statement for the years then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit as required by EU Regulation No 809/2004 as included in the Norwegian Securities Trading Act section 7-13. We conducted our audit in accordance with International Standards on Auditing/Norwegian Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the company as of 31 December 2007 and 2008, and of its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Tromsø, 23 November 2009
PricewaterhouseCoopers AS

Kent-Helge Holst

Kent-Helge Holst
State Authorised Public Accountant (Norway)

Layout: bjorkmanns.no

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Photo: Langøya, Vesterålen, October 2009 (Christina Søgård)