Annual report 2012

north
energy

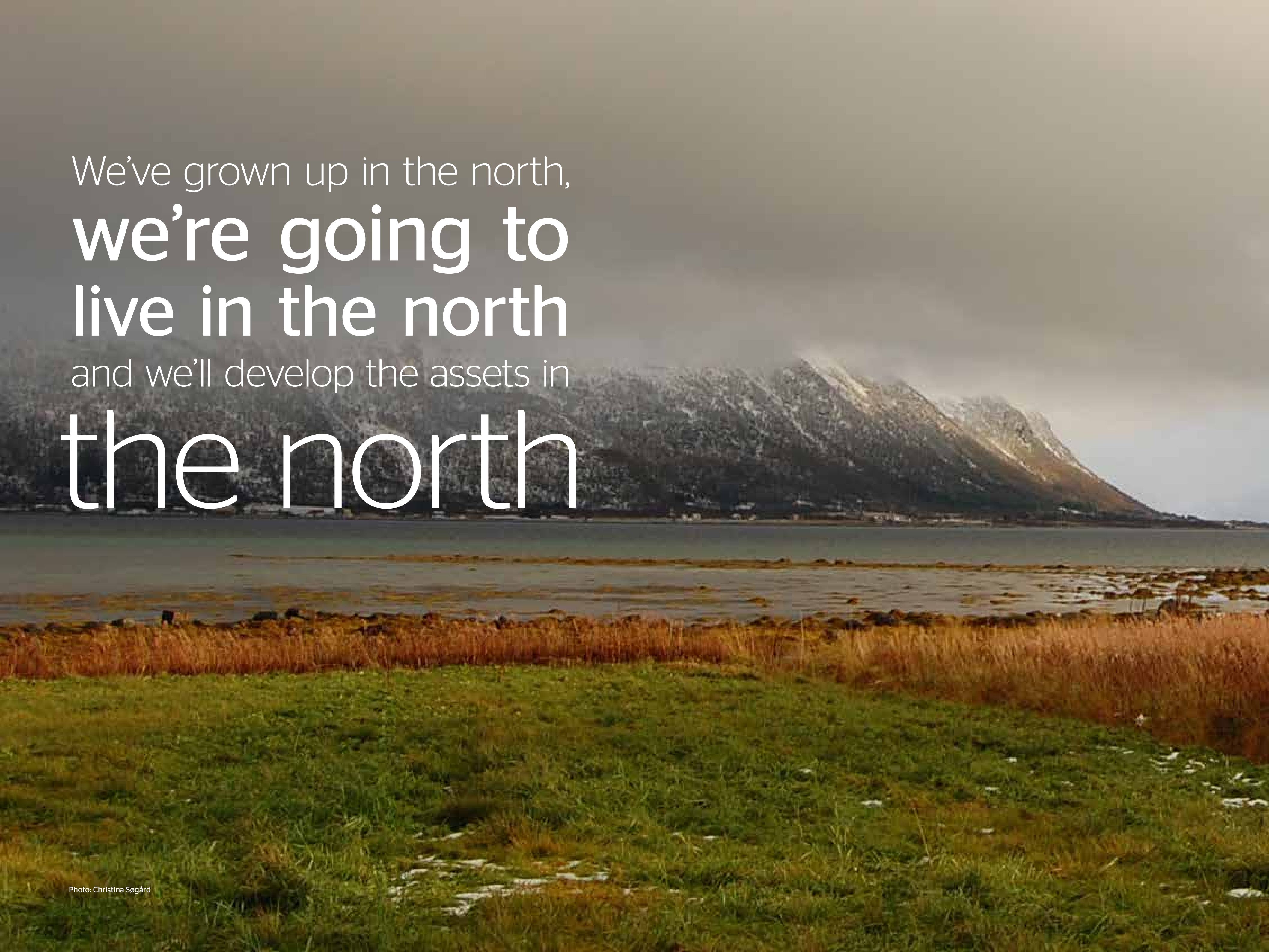


Photo: Christina Søgård

Contents

CEO's comments

North Energy during 2012

While 2011 was described as demanding for North Energy, it can be said after four wells with disappointing results that 2012 proved another challenging year for the company. The market has responded, as reflected by a share price well below the company's cash holding. The price is also affected by speculation among analysts and in the financial press about an imminent share issue at a discounted price. North Energy's owners, directors, management and employees had a tough year in 2012.

However, the management's job is to look behind the results without seeking to excuse them. The small sample provided by North Energy's drilling results accords reasonably well with finding statistics for the whole Norwegian continental shelf (NCS) in recent years. Its nine exploration wells have yielded four discoveries. These include two gas discoveries ranked as commercial and two in reservoirs considered too tight for commercial operation. All the gas prospects have yielded hydrocarbons, but none of the oil ones so far. The two commercial discoveries both lie in the north, while efforts in the North Sea have failed to pay off so far.

In other words, the company seems to have succeeded with its primary strategy for the northern NCS. Data and expertise about the far north are in place, only Statoil has received more licences in these waters since North Energy was founded, more hydrocarbons have been found per northern well than most other companies have managed, and North Energy is established as the north Norwegian company. However, these facts are completely drowned out by the lack of saleable oil discoveries in 2012 which could finance activity until the assets in the far north become visible to the market.

Leading position in Barents Sea

The world at large still has to appreciate it, but the investment made in the 22nd licensing round in the Barents Sea represents North Energy's biggest and most promising commitment since its foundation and brings the goal of a leading position on the northern NCS even closer. In the summer of 2012, the company resolved to commit substantial resources to the licensing round on the northern NCS, where North Energy can be seen to have succeeded.

When working on the application, the desirability of North Energy taking on a substantial work programme which required a capitalisation beyond its existing resource base quickly became evident. The challenge set for the executive management by the company's board can be summed up as follows:

- the company's financial position must not become an obstacle to securing good awards in the 22nd licensing round
- a financial strengthening of the company must be based on its real assets and not on the present share price.

The administration accepted these challenges and added an extra one: the company will be reinforced financially while simultaneously finding partners who can strengthen it in the absolutely fundamental area of finding oil.

How can oil be found?

Disappointing drilling results in the southernmost part of the NCS show that exploration for oil and gas is a matter of maturing expertise, even in well-known petroleum provinces. Groundwork and regional understanding of basins ahead of licence farm-ins and securing interests from the awards in predefined areas (APA) process are crucial.

After the three first dry wells in 2011, the company initiated a process to enhance the quality of its oil prospects before a drilling decision is taken.

North Energy's management is looking to the future. The company is well positioned on the northern NCS, where the oil industry is heading. It has a highly competent organisation, good partners and a promising 22nd round application. Two promising wells are due to be drilled. Financing is satisfactory. North Energy is expectant and optimistic.

Photo: North Energy

Repeated feedback from the Norwegian Petroleum Directorate (NPD) on North Energy's licence applications indicate that the company's geological work is of the highest quality. However, its size presents a challenge for total utilisation all available geophysical tools used with an adequate volume of seismic data. Comparisons with the companies which find the largest volumes of oil on the NCS indicate that applying the very latest geophysical technology to a great deal of best-quality seismic data is a hallmark of success. That was how Johan Sverdrup came to be discovered, for example. This is demanding but far from impossible, even for a small company.

During the period before the 22nd round was announced, the geophysical team at North Energy tested a new technology which aims to detect oil in seismic data. Regarded as very promising, this solution originates from Sweden's University of Lund and has been named Virtual Drilling (VD). Rex Oil & Gas Limited (Rex), the company which owns VD, has commercialised several similar technological tools and has been involved in Norway's oil and gas sector since the early 1980s. It has recently focused more of its attention on the Middle East and the USA, where 40 wells based on the VD technology are due to be drilled in 2013.

Results from a checkable blind test on eight wells were remarkable. Not only would Rex have decided to drill no more than the three commercial wells included in the test (one well would have been relocated), but it also predicted the large volume of immobile oil, the wells where traces of oil were found, and those which proved completely dry. It must be noted that this surprising outcome was achieved on a small sample and could contain many coincidences. It nevertheless suggests that oil would have been found more frequently through collaboration with Rex, through the application of North Energy's geological expertise and through increased use of all other available geophysical tools.

Positioned for 2013

Following the experience with VD in 2012, a four-year technology contract was recently signed with Rex. The latter is now experiencing rapid global expansion. Its growing processing capacity permits a larger selection of oil prospects to be identified on the basis of larger volumes of seismic data and a more restrictive choice of wells. An increased need for seismic information also suggested that a geophysical partner be found which can become part of an industrial capital solution. If this also means lower investment in seismic data acquisition, such a combination should be interesting for everyone concerned. TGS Nopec is the clear market leader for seismic data in the Barents Sea, North Energy's most important priority area. A proposal to join forces in these waters was well received by TGS.

A good partnership is one where each partner benefits from the success of the others. That was the basis for the business model presented to Rex and TGS. They get to sell their services, which represent North Energy's most important input factor in the pre-drilling process, with funding through the offer of convertible loans from North Energy. These loans can be converted at prices which reflect the underlying asset values in the company.

The agreements with TGS and Rex have now been signed. They provide a liquidity improvement which corresponds to an equity injection of close to NOK 200 million without issuing new shares.

All the personnel need to do is roll up their sleeves and get to grips with the rest of 2013.

Erik Karlstrøm
CEO

Values, goals and strategies

Values

North Energy has four core values which characterise its activities:

- **at the forefront** – innovative and alternative, develop new ideas, solutions and technologies, the first to show the way
- **competent** – possess state-of-the-art knowledge, be a reference for others through our words and deeds, set a good example
- **bridge-builder** – bring people together, identify the main directions to take, a preferred partner, focus attention and facilitate
- **a fearless voice in the north** – daring to say what we think is right and speaking out for the north Norwegian community

Goals and strategies

North Energy's goal is to create value for its shareholders and to contribute to positive spin-offs on land by participating in exploration, development and production activities off mid and northern Norway.

The company's core activity is the development of profitable and sustainable petroleum operations in northern Norway, where facilitating local activity and spin-offs throughout the region occupies a key place.

North Energy's main strategies

- Establishing and developing a profitable oil and gas company through the acquisition and award of the best licences in the northern part of the Norwegian North Sea and in the Barents Sea
- Ensuring an adequate capital base to sustain the company throughout the value chain
- Ensuring access to profitable investment opportunities by being an attractive partner for government and leading oil companies
- Being a credible partner for important stakeholders, such as suppliers/contractors, the fishing industry and environmental groups

Petroleum operations in far northern waters require a high level of oil-spill preparedness along the coast, and call for a close dialogue with representatives from coastal communities. In cooperation with a number of players, North Energy has contributed to the development of a special clean-up concept for these areas.

North Energy has opted to concentrate systematically on innovative solutions. Close contacts with the supplies industry and technological specialists help it to optimise opportunities and plans for further research and development. The company develops the skills required to take decisions along the whole value chain which characterises the petroleum industry, within a long-term and environmental perspective.

Being embedded in northern Norway makes North Energy a different kind of company. Knowing through this entrenchment how issues are perceived among coastal residents is a strength. The company accordingly wants to be a party to discussions on petroleum-based value creation in the far north. A shared understanding of attitudes and views provides a good basis for constructive dialogue on specific activities, plans and challenges.

Key figures

		2012	2011	2010
Exploration costs	NOK million	(540 143)	(340 154)	(179 049)
Payroll costs	NOK million	(56 774)	(70 949)	(62 149)
Loss for the year after tax	NOK million	(111 519)	(110 556)	(62 916)
Balance sheet total	NOK million	873 336	1 061 167	638 056
Working capital	NOK million	230 819	172 211	397 437
Equity ratio		47%	35%	75%
Cash flow before financing	NOK million	(264 684)	(349 819)	(246 137)
Number of shares		40 813 448	25 224 393	25 149 736
Nominal value per share	NOK	1	1	1
Share price	NOK	3.3	8.4	22.8
Market capitalisation	NOK million	135.5	212.1	573.4
Employees		39	51	43
Licences (operatorships)		24 (2)	23 (2)	21 (2)

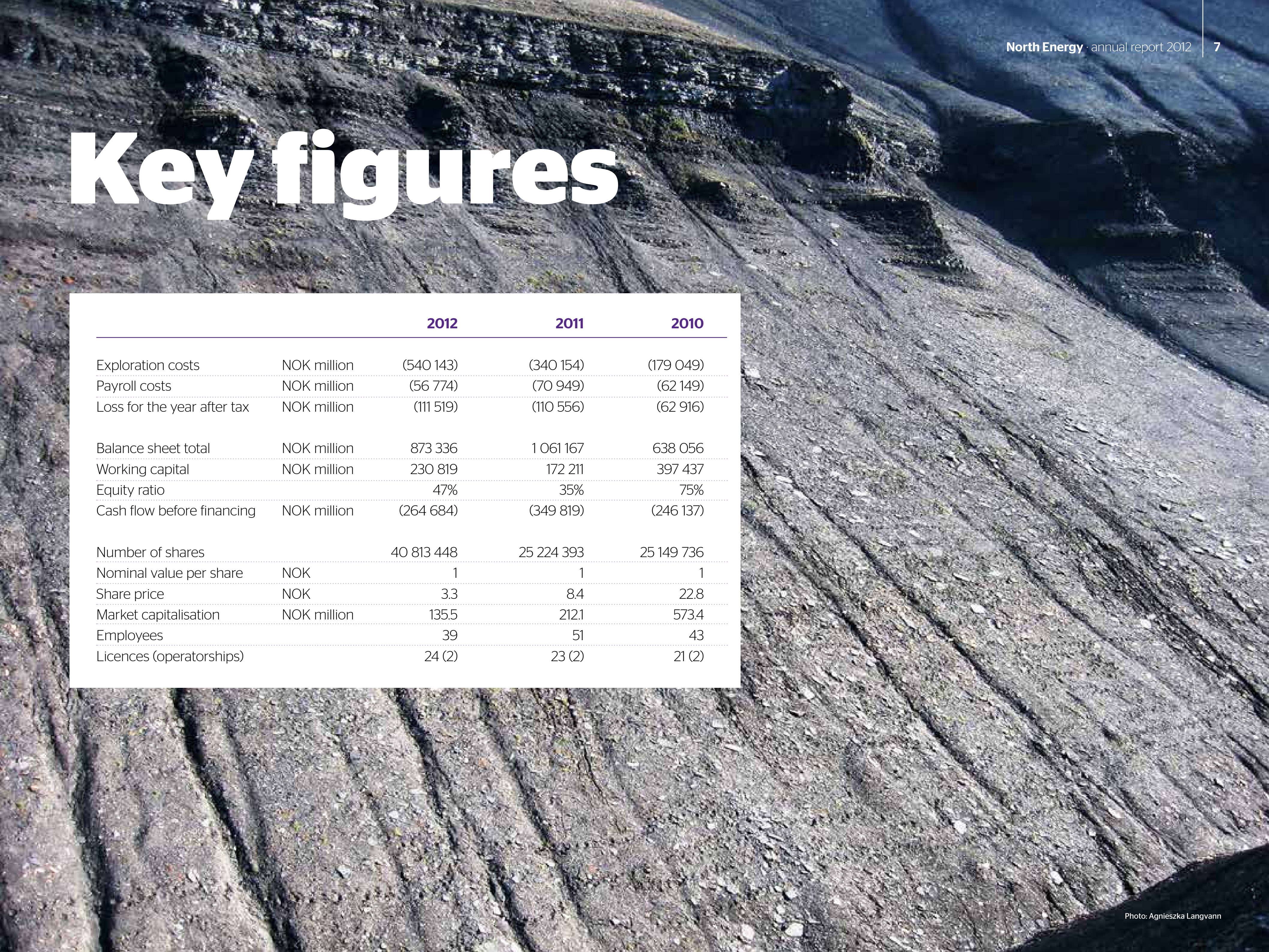


Photo: Agnieszka Langvann

Important events in 2012

and to 31 March 2013

Licences

- Two priority licences were awarded to the company in the 2011 awards in predetermined areas (APA) round during January 2012. These are PL 616 in the North Sea and PL 656 in the Norwegian Sea off Nordland county.
- One licence was awarded to the company in the 2012 APA round. PL 693 in the northern Norwegian Sea was the only holding sought in this APA round.
- The company sold its 12 per cent holding in the Fogelberg gas/condensate discovery in PL 433 in February 2012 to the licence operator, Centrica Resources (Norge). A sale price of NOK 73 million including interest yielded an accounting gain of NOK 47 million.
- North Energy entered into an agreement in May with Lime Petroleum Plc on the sale of holdings in four licences for a compensation of NOK 31.8 million. NOK 27.5 million of this sum was paid as a minimum amount regardless of the outcome of Lime's prequalification process, which was then initiated. Lime has now been approved as a licensee on the NCS, and the final financial settlement and licence transfer are expected to be completed during the first quarter of 2013.
- In September, North Energy announced that it was swopping 20 percentage points of its 35 per cent interest in PL 385 Jette for 20 percentage points of Dong Energy's holding in PL 299 Frode, an oil prospect in the North Sea where drilling is due to start in the second quarter of 2013.
- With accounting effect from 31 December 2012, North Energy took over interests in PLs 498, 503 and 503B from its wholly owned 4Sea Energy AS subsidiary for a sales sum of NOK 37 million.

Drilling

- North Energy was a partner in four exploration wells on the NCS in 2012. These were on the Storebjørn prospect in PL 450, the Kakelborg prospect in PL 370, the Skagen prospect in PL 498 – all in the North Sea – and the Jette prospect in PL 385 in the Norwegian Sea. Gas was proven in Jette, but the commercial potential remains to be clarified. The other three wells were found to be dry.

Technology collaboration

- A collaboration was established by North Energy in February 2013 with Rex Oil & Gas Limited concerning the use of the latter's Virtual Drilling technology for identifying and locating oil prospects. Not previously used on the NCS, this solution will represent a valuable supplement to existing exploration tools used by the company to analyse prospects.

Capital and financing

- A share issue was conducted in February 2012 comprising 15 million new shares at a price corresponding to NOK 10 per share. Directed at new and large existing shareholders, it was oversubscribed at the issue price. This was followed up by a repair issue of 0.59 million shares priced at NOK 10 each, directed at the company's smaller shareholders.
- The company entered into a new three-year credit agreement with DNB and SEB in December 2012. With a framework of NOK 950 million, this allows North Energy to carry the state's share of exploration costs until these are refunded.
- Credit agreements with TGS Nopec and Rex Oil & Gas, involving frameworks of NOK 200 million and NOK 100 million respectively, were approved by an extraordinary general meeting on 22 March 2013. These credits can be used only to acquire data, analyses and services from the respective lenders. Running for four years, the agreements give the lenders the right but not the obligation to convert debt to shares at a pre-agreed time and at a conversion price of NOK 8. The agreements involve no buyer obligation, and possible debt can be redeemed at the termination of the agreements or earlier if desirable.

Milestones

2007

September
North Energy is founded on the banks of the Alta River

November
Erik Karlstrøm becomes chief executive officer

2007-2009
Financed by capital from northern Norway

2008

August
Prequalifies as a licensee

December
Secures two licences in the 2008 APA round

2009

March
Prequalifies as an operator

April
Secures four licences in the 20th round, including an operatorship

2nd half
Farms into two licences

December
Secures three licences in the 2009 APA round

2010

February
Raises NOK 400 million in financing

Secures listing on Oslo Axess exchange

Acquires 4Sea Energy, including two further licences

April
Discovery in PL 433 Fogelberg

October
Farms into PL 341 Stirby

2011

January
Secures five licences in the 2010 APA round

March
Secures two licences in the 21st round, including an operatorship

March-July
Farms into two licences

August
Successful formation test of gas discovery in PL 535 Norvarg

2012

January
Secures two licences in 2011 APA round

February
Sells stake in Fogelberg gas discovery

Private placement raises NOK 150 million

May
Agreement with Lime Petroleum Plc on the sale of licence interests

2013

January
Secures licence sought in 2012 APA round

February
Agreement on technology collaboration with Rex Oil & Gas

March
Credit agreements involving a total framework of NOK 300 million with TGS Nopec and Rex Oil & Gas

Photo: Agnieszka Langvann

An Arctic identity

Four of the company's exploration wells have so far been drilled on the northern NCS (the Barents and Norwegian Seas), and two of these yielded discoveries. That represents a finding rate of 50 per cent, and puts North Energy among the top six (volume/well) of the 40 companies which have pursued exploration drilling north of the 62nd parallel.

The Barents Sea has been the primary area for North Energy ever since the company was founded in 2007.

As an industrial player originating from and based in northern Norway, North Energy regards closeness to and understanding of the region as important assets during the build-up of the oil industry there. The company ranks today as a clear industrial north Norwegian voice in this development, and will remain so. Through its activities, it will contribute to regional industrial and commercial development in northern Norway, in close dialogue with local expertise and business. Access to resources on the northern NCS calls for legitimacy with the region's population.

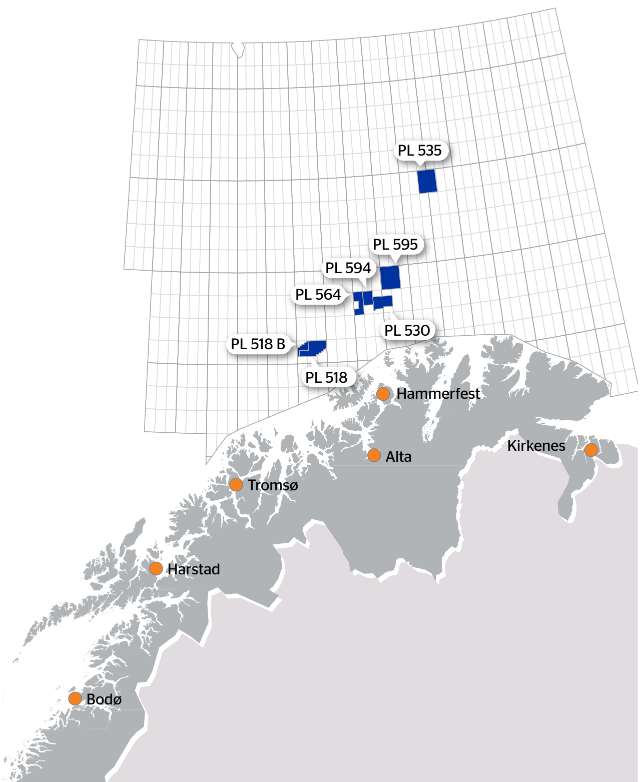
The far north makes much higher demands for emergency response solutions than in areas further south on the NCS. That reflects such aspects as greater distances, colder climates and vulnerable nature and animal resources – close to the Arctic ice cap, for example. To increase its knowledge of this area, North Energy participates with the Northern Research Institute (Norut) in Narvik and a number of industry partners in research related to cold climate technology.

North Energy's HSE strategy is to involve local communities and players in northern Norway. By involving regional specialists in oil-spill response, the industry benefits from their expertise on such aspects as weather conditions and climatic challenges.

The Barents Sea is still relatively unexplored, but its geological structures have great potential.

North Energy takes a long-term view, and its work on applications for the 22nd licensing round has been directed almost entirely at the Barents Sea.

In that context, the company has entered into a collaboration over Barents Sea licences with Lukoil, Russia's largest privately owned oil company, and regards this as very interesting. The ability to draw on leading-edge expertise from the Russian sector of the Barents Sea provides North Energy with an advantage in its efforts to secure increased geological understanding.



Erik Henriksen, vice president exploration at North Energy, feels that the future of Norway's oil industry lies in the Barents Sea. He is a strong believer in exploiting opportunities offered by a collaboration between the industry and academia – and with neighbouring Russia.

A geology graduate from the University of Tromsø, Henriksen now teaches petroleum geology as an associate professor at the same institution alongside his job with North Energy. "Although we've learnt a lot about drilling in the Barents Sea over the years, this remains an unexplored area," he says.

"You need to find geological trends and grasp the dynamics on a large scale. That's the only way we'll get to understand developments and enhance the probability of finding new wet fields. We've devoted a lot of resources to understanding uplift and erosion in the Barents Sea, for instance."

Henriksen has 10 years of experience as exploration manager for the former Soviet states and Russia, and believes sharing knowledge with the Russians will be crucial for prospects on the NCS.

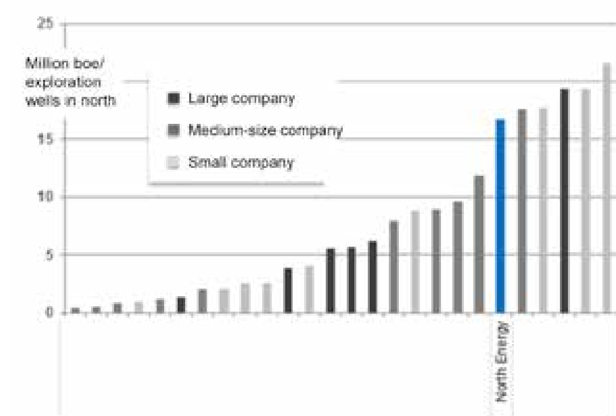
"We cooperate with the universities both in St Petersburg and Tromsø to secure geological insight," he notes. "That's a win-win collaboration for both industry and academia."

Players in the Barents Sea

Twenty-eight different companies currently operate in the Barents Sea, including 13 as operators.

Room now exists for small companies which actually find oil and gas, including on the northern NCS

An increase in both operators and licence partners is expected after the 22nd round awards. This diversity of oil companies creates big opportunities for Norwegian and north Norwegian suppliers and knowledge industries.



- 40 companies have drilled exploration wells north of 62°N
- 14 have found nothing (four large, seven medium-sized and three small)
- North Energy is the first north Norwegian company with discoveries on the northern NCS
- In the top six along with three other small companies

Activity and spin-offs in the north

Photo: Agnieszka Langvann

Prospects for many rigs, further discoveries and access to infrastructure are now attracting a growing number of newcomers to the Barents Sea.

Available infrastructure is a key condition for spin-offs from oil and gas activities. North Norwegian interests must also be taken into account when weighing up future infrastructure in the Barents Sea. The most important consideration will be to secure a high and durable level of exploration activity and a development concept which allows even small gas discoveries the length of the NCS to be brought on stream. This predictability is what must be secured to achieve the same employment effect in northern Norway as in to the south.

Gassco is continuing its studies of an overall gas transport solution for the Barents Sea, based on a pipeline running north from the Norwegian Sea with much greater capacity than today's system. Plans call for this work to be completed in 2015-16, and it will make an important contribution to the decision base for a transport infrastructure.

Looking to the future

North Energy has been working on development scenarios for the Barents Sea in recent years, most recently in its *Scenario North 2030* project.

Achieving speedy commerciality and production for present and future gas discoveries calls for a high-capacity export pipeline for gas in the Barents Sea, able to cover the NCS from the boundary with Russia and up towards Svalbard.

Together with proven discoveries, the Scenario North 2030 study provides a picture of the industry's views about the future in Barents Sea South. This is based on prospectivity ahead off the 22nd licensing round. The bulk of new discoveries are likely to be developed with subsea facilities. However, long transport distances and demands for safety and environmental protection mean that several offshore hubs will be needed in the form of floating installations.

The scenario shows that oil and gas will be piped to several receiving facilities on land for processing and onward transport, either by tankers for oil or through pipelines for gas. Such an export solution, dubbed the Barents Stream in the debate on possible development solutions, would accordingly serve the whole of Barents Sea South – including the former area of overlapping claims.

Petroleum jobs create viable communities in the north

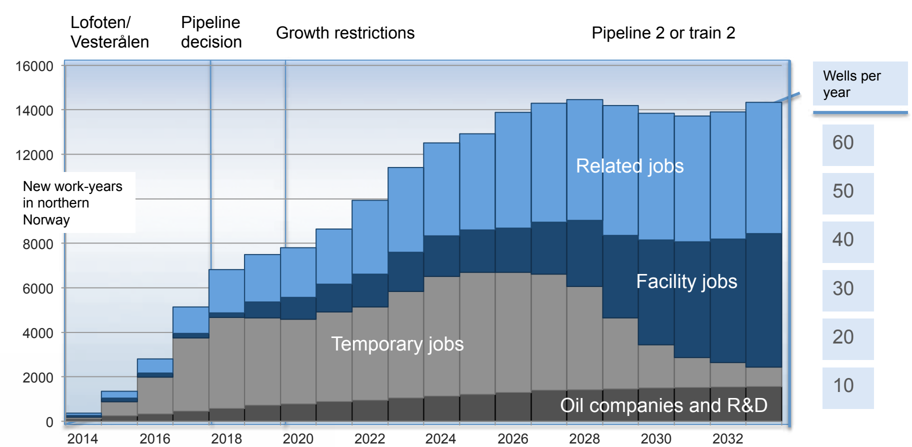
Requirements for spin-offs from oil and gas activities include north Norwegian activities by the oil companies, discoveries and – perhaps most importantly – available expertise. A key task is thereby to enhance the level of expertise in the region and secure recruitment.

However, very few new jobs will be provided by oil companies. They will primarily be created at workplaces related in various ways to increased oil activity. North Energy's analyses show that, assuming the requirements for spin-offs are present, it is not unrealistic to expect close to 15 000 new jobs in northern Norway.

According to the Northern Research Institute (Norut), as many as 6 000 oil-related jobs could be provided in the supplies industry and in deliveries to that sector. In a later phase, "facility" jobs could total more than 4 000 – including work at land-based facilities, on floating installations, rigs and supply ships, and full-time employment in oil-spill response. This calls for very specialised expertise in such areas as maintenance and modification.

Northern Norway will also need a public sector which is good at planning, infrastructure, health services, housing provision and education. Young north Norwegians will continue to find interesting and challenging jobs in these specialities.

The increased level of activity will also provide new jobs in associated industries. Typical examples include logistics, services and culture. Work by Norut and the Møreforskning research institute shows a rising volume of associated employment for each petroleum job – by a factor of 0.3-0.4 for Finnmark county. The calculations indicate that growing activity in the region would provide the basis for up to 5 000 jobs in sectors which fall within the definition of associated industries.



Research at Norut and Møreforskning shows a rising share of associated employment for each job in oil and gas. This factor is 0.3-0.4 for Finnmark, compared with 0.6 in the Møre region of mid-Norway.

Establishing the whole petroleum-industry value chain in northern Norway could make this region a far more important for Norway.

Astrid Tugwell

Vice president development and HSE

Tugwell moved from Øksfjord in Finnmark's Loppa local authority to Scotland to quality as a petroleum engineer. After a number of years with Shell, both internationally and in Norway, the time was ripe to return to northern Norway. She ranks as the highly experienced petroleum engineer who has finally come home and is now development and HSE vice president at North Energy.

Her career includes serving as a reservoir engineer and sub-surface manager on a broad range of oil and gas fields around Europe. She participated in work on appraising the Ormen Lange discovery off mid-Norway and selecting its development solution. Tugwell also worked on planning and economics before becoming development leader for Draugen. In North Energy, she has helped to build up a new company which has now been awarded licences in the North, Norwegian and Barents Seas and two operatorships in the Norwegian Sea.

As development and HSE vice president at North Energy, she will make a big contribution to ensuring that oil production off northern Norway respects the local environment and employs local people.

"We're a north Norwegian enterprise and, since these developments are taking place on our doorstep, we'll be an oil company which does things in a secure and credible way," she emphasises.

New technology introduced to the NCS

Under an agreement with Rex Oil & Gas Ltd, North Energy is introducing the use of exploration technology which has not previously been applied on the NCS. This collaboration focuses on the use of the Virtual Drilling solution from Rex for identifying and locating oil prospects.

Virtual Drilling is an innovative technology which exploits the resonance displayed by various liquids in different frequencies of seismic data to distinguish between aquifers and oil reservoirs. North Energy conducted a number of blind tests on historical well information in 2012 with very good results.

This solution will be a valuable supplement to existing exploration tools used by the company to analyse prospects. It will not replace any of today's tools, but help alongside the latter to develop more oil prospects. The resonance technology will provide a final filter for selecting the most promising projects from a larger range than at present.

Virtual Drilling will be a valuable supplement to the existing exploration tools currently used to analyse prospects.

From mastering in pre-school to master's at university

North Energy's long-term approach characterises its commitment to educational institutions in northern Norway.

The principal aims are enhancing expertise and increasing recruitment to science-based careers and relevant vocational subjects. Building expertise in petroleum-related disciplines helps to strengthen north Norwegian ownership of the developments facing the region.

North Energy's contribution takes the form of direct involvement in educational projects from pre-school to university, through both guest lecturing and direct development of teaching programmes in science and technology.

Expertise and funding was contributed during 2012 to

- the Scientific Work in Finnmark project run by Alta College of Further Education
- the Newton Room science facility in Alta local authority
- the First Lego League competition
- an Energy Camp for further education students from the whole of Finnmark in cooperation with Young Entrepreneur Finnmark
- an energy scholarship for MSc students from northern Norway in energy-related subjects
- academic collaboration with the universities of Tromsø and St Petersburg
- advising students on MSc theses at the universities of Nordland and Tromsø.

Photo: Julie Berg

Photo: Ungt Entreprenørskap Finnmark

Photo: BHK

Photo: Bernt Nilsen


Photo: North Energy

Attracting people to live in the north

North Energy seeks to partner others in northern Norway, and is working to create a desire to live in this region and thereby help to make it a player to be reckoned with.

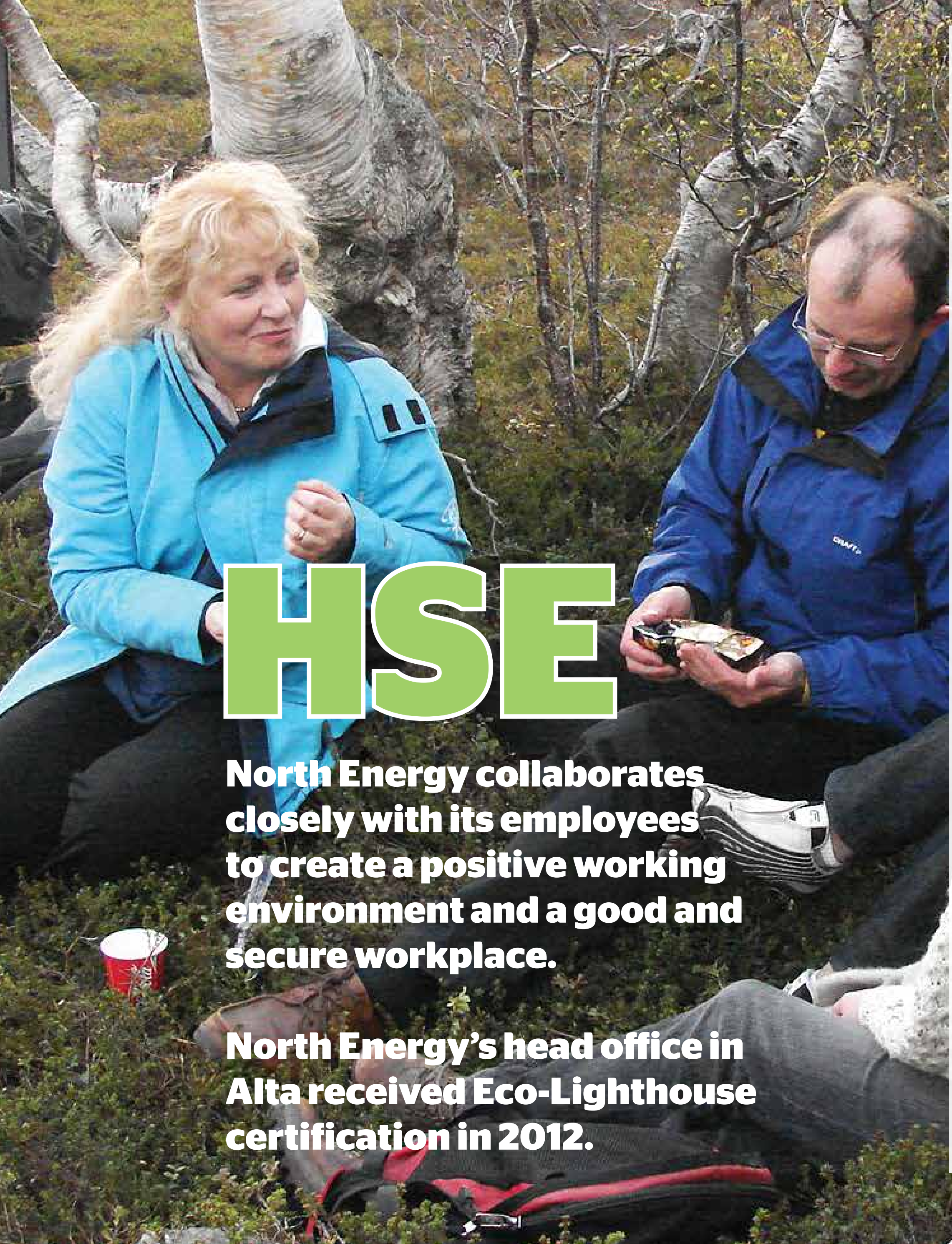
Bodø Handball Club is a partner of this kind. It is a serious and positive ambassador for the sport of handball, not only regionally but also at a national level. Its aims are very ambitious, and the players display good attitudes and professionalism at every level. The Premier League club attracts enthusiasm and great commitment, and North Energy is accordingly proud to play on the same side.

North Norwegian skiing championship

Sandnes Sports Club and the Kirkenes District Ski Club staged this championship in 2013, with North Energy as one of several supporters. More than 1 000 youngsters and adults from northern Norway assembled for a major skiing event in the "winter county" of Finnmark. The company is proud to have contributed to bringing together talented skiers large and small, and ensuring that sporting enthusiasm helps to create wellbeing and collaboration in Finnmark.

The Finnmark Race

The Finnmark Race (Finnmarksløpet) for dog sleds is the winter's most beautiful event in northern Norway, and North Energy is pleased at the commitment and full of praise for everyone who contributes to the race – volunteers, drivers and dogs. This is a fully professional event and a model of good competition in Norway, where voluntary involvement and commitment occupy a central place. It creates pride and a sense of identity for north Norwegians, and North Energy is a proud elite partner of the Finnmark Race for the fourth year in a row.



HSE

North Energy collaborates closely with its employees to create a positive working environment and a good and secure workplace.

North Energy's head office in Alta received Eco-Lighthouse certification in 2012.

The company is continuing its efforts to ensure good employee health, in part through fitness facilities, the provision of physiotherapists and ergonomic office arrangements.

The annual and extensive HSE plan was implemented and its goals were largely met. Total sickness absence in 2012 was 1.3 per cent, down from 2.9 per cent the year before and well below the national average.

As part of its preparations for an active operatorship, North Energy developed a new emergency response plan during 2012. To ensure the implementation of this plan along with a good grasp of methodology and roles in the response organisation, the company conducted training in emergency management for leading personnel.

North Energy's operations in 2012 polluted the natural environment to only a limited extent. Air travel was the largest factor in that respect. The company makes extensive use of modern video/voice conferencing between its offices, in part to limit travel.

The company was a partner for and participated in four exploration wells without serious injuries to personnel or damage to equipment and without unplanned discharges to the natural environment. As a partner, North Energy shares responsibility for ensuring that drilling operations are executed in a secure and environment-friendly manner, and that the quality of the established oil-spill response organisation complies with current regulations. Its compliance monitoring must check that risk assessments are made in the areas of well control, environmental protection and emergency preparedness, and that all planned measures are implemented during drilling operations. North Energy has actively discharged its compliance responsibility.

Increased petroleum-related activities on the northern NCS have led to a strong focus on and an entirely necessary debate about the quality and capacity of oil-spill response in this region. North Energy works actively to strengthen oil spill response close to shore in northern Norway. Establishing such arrangements is a very socially useful step, which provides clear local spin-offs.

NewBoom project

The NorLense company initiated a preliminary study in 2008 with a view to developing the next generation of oil boom, which was designated NewBoom 2008. This is required to operate with significantly better results than existing equipment in the tough currents and weather conditions encountered off Norway for at least 80 per cent of the year.

North Energy has contributed to the financing of this project, which was completed in the autumn of 2012.

The work has aimed to develop booms which can also collect oil driven to a depth of 1.5 metres into the sea by wave churn, and has attracted considerable international interest. A hypothesis that coalescence techniques could be used for this purpose has been verified by the project, and results have exceeded the specified target. Plans call for the work to continue with operational tests in 2013 and 2014.

Cold Tech project

North Energy has been one of the principal sponsors of ColdTech since this project began in 2008, and will continue until it reports in 2015. In this way, the company contributes to new learning about operations in cold climates. The Research Council of Norway provides the bulk of the project funding. ColdTech is part of the Council's Northern Commitment initiative, which aims to build up and strengthen north Norwegian research environments in such fields as Arctic technology.

Execution of the project is entrenched in a consortium comprising the Northern Research Institute (Norut) in Narvik, Narvik University College, the Northern Energy Campus, Det Norske Veritas and Luleå University of Technology.

Photo: Cold Tech team

Executive management of

From left: Kristin Ingebrigtsen, Marion Høgmo, Astrid Tugwell, Erik Karlstrøm, Knut Sæberg, Vigdis W Jacobsen and Erik Henriksen. Photo: Egil Hansen

Erik Karlstrøm
CEO
(born 1956)

Karlstrøm is the CEO and was the company's first employee. He came from Germany's RWE group, where he worked for 20 years, most recently as deputy CEO of RWE Egypt with responsibility for exploration. As exploration head in Egypt, Karlstrøm was directly involved in a number of discoveries of gas in the Nile delta. Before that, he spent six years with Mobil in the USA and Stavanger. Karlstrøm has also chaired the exploration committee of the Norwegian Oil Industry Association (now the Norwegian Oil and Gas Association). He graduated in geophysics at the Norwegian Institute of Technology (NTH) in Trondheim, and hails from Talvik in Alta.

Knut Sæberg
CFO
(born 1959)

Sæberg was appointed CFO in March 2009 and is responsible for the company's financial functions and ICT. He came from the post of CFO in the Optimera group, where his priorities were restructuring and acquisition. Sæberg was previously CFO of NMD ASA and played a key role in its restructuring following the deregulation of Norway's pharmaceutical market. He held various positions in Shell from 1984 to 1995, including work on establishing Troll as the largest gas project on the NCS until then. Sæberg took an MSc in business economics at Kristiansand in 1984.

North Energy ASA

Vigdis W Jacobsen
Vice president for business development and portfolio
(born 1950)

Jacobsen is vice president for business development and portfolio at North Energy. She has worked with exploration in Norway and internationally for more than 30 years. Jacobsen participated in the creation of Gaz de France Norge in 2001, and was responsible for exploration activity on the NCS. From 1983-2001, she worked primarily with exploration at Statoil, first as exploration manager for the NCS and later as exploration vice president for the Caspian. Jacobsen has also chaired the exploration committee of the Norwegian Oil Industry Association (now the Norwegian Oil and Gas Association). She began her career in the NPD and has an MSc in geology from the University of Oslo.

Erik Henriksen
Vice president exploration
(born 1960)

Henriksen was appointed the company's exploration vice president in 2011. He has broad experience from the NCS, with particular emphasis on the far north. Henriksen graduated in geology from the University of Tromsø, where he is also an adjunct professor in petroleum geology. He started his career with two years at the NPD, followed by 20 years with Statoil. He has held specialist posts and headed projects across much of the NCS. He was sector manager for Statoil's 2000-01 drilling campaign in the Barents Sea, which resulted in three discoveries. During his last 10 years with Statoil, he worked on international issues and was exploration manager for all the ex-Soviet states, with particular emphasis on Russia, Kazakhstan and Azerbaijan.

Astrid M Tugwell
Vice president development and HSE
(born 1963)

Tugwell joined the company as development vice president in February 2008. She has a solid background in reservoir development and has also held positions in finance and planning, licence management and project management. She started her career with the NPD before joining Shell International and later Norske Shell. During that time, Tugwell took part in a number of European and Norwegian projects which ranged from drilling to developing mature fields, including the development of the Ormen Lange gas field. Her last position with Shell was development manager for the Draugen field on the Halten Bank. Tugwell comes from Øksfjord in Loppa local authority and graduated as a petroleum engineer from Strathclyde University in Glasgow.

Marion Høgmo
Vice president administration and HR
(born 1956)

Høgmo has been administration vice president since April 2008, with particular responsibility for human resources and administrative processes. Her specialities are organisation, finance, development and management. She served as a bank manager with Sparebank 1 Nord-Norge and Nordea from 2000-08. Høgmo has studied economics, management and education at Finnmark University College and law at the University of Oslo, and has an MBA in administration and management from Buskerud University College.

Kristin Ingebrigtsen
Vice president strategy and PA/PR
(born 1963)

Ingebrigtsen was appointed vice president for the strategy and PA/PR department on 1 June 2011. She is a former director of the company, and was previously a fund manager at Pronord AS and chief executive of Såkorn Invest Nord AS. Ingebrigtsen has studied finance, marketing and administration at Bodø University College and the Norwegian School of Economics. She has long experience of exports and administration from Rapp Marine, and broad experience of exports, sales and management after 20 years with this group – including as marketing manager for the international fisheries market. She has versatile experience from directorships in various companies.

Exploration activity and portfolio

North Energy was a partner in four exploration wells on the NCS during 2012. These were on the Storebjørn prospect in PL 450, the Kakelborg prospect in PL 370, the Skagen prospect in PL 498 – all in the North Sea – and the Jette prospect in PL 385 in the Norwegian Sea. Gas was proven in Jette, but the commercial potential remains to be clarified. The other three wells were found to be dry.

Interests in two licences were awarded to North Energy as a partner in the 2011 APA round – PL 616 at the southernmost end of the NCS and PL 656 in the Norwegian Sea off Nordland. Drill or drop decisions are involved in both licences. The company secured PL 693 in the northern Norwegian Sea from the 2012 APA round. This was the only licence it sought in the round.

North Energy entered into a collaboration in February 2013 with Rex Oil & Gas Limited concerning the use of the latter's Virtual Drilling technology for identifying and locating oil prospects. See a more detailed presentation of the technology on page 15.

Barents Sea

The Barents Sea has been a core area for North Energy since the company was founded, and its level of activity in the region was high during 2012 even though it did not participate in drilling there. The company invested in large volumes of data related to its application for the 22nd licensing round, with a deadline to apply for acreage in December 2012. North Energy worked on several areas and delivered an extensive application.

North Energy will participate during 2013 in appraisal drilling on the Norvarg discovery made in 2011. The NPD recently upgraded its median resource estimate for the discovery from 176 million barrels to 279 million. A successful appraisal well could enhance this figure even further.

A collaboration project to study petroleum geology developments in central areas of the Barents Sea was pursued by North Energy in 2012 with the University of St Petersburg. This work is yielding important and useful knowledge for assessing acreage ahead of the 23rd licensing round. The NPD recently upgraded its estimate of remaining undiscovered resources in the Barents Sea, based on prospects in the area adjacent to the boundary with the Russian sector south of 74°N.

Norwegian Sea

North Energy has nine licences in the Norwegian Sea, including two as operator. The most recent licence is PL 693, awarded to North Energy as a partner in January 2013 from the 2012 APA round.

The company's share of the Fogelberg discovery, made in 2010, was sold during the year to operator Centrica. This is in line with North Energy's strategy of selling parts of its portfolio prior to development in order to boost its exploration activity.

Drilling of the Jette prospect in PL 385 unfortunately failed to live up to the company's expectations for a commercial discovery. A decision on further development will be taken in the time to come.

North Energy worked during 2012 to establish a new partnership for PL 510, and it was announced in early 2013 that Mærsk will join as operator while Edison becomes the third partner in the licence. A firm well is expected to be drilling in 2014-15.

No drilling decision has been taken so far on PLs 526 and 590, the two licences operated by North Energy.

North Sea

Eight licences are held by North Energy in the North Sea, of which seven were farm-ins. A transaction was entered into in 2012 with Dong Energy whereby North Energy acquired 20 per cent of PL 299 in exchange for 20 per cent of PL 385. The Frode prospect in PL 299 lies in an area where several oil discoveries have been made earlier, and plans call for it to be drilled in the first half of 2013.

Valberg in PL 503 is the prospect with the biggest potential in North Energy's North Sea portfolio. Representing a new play, it accordingly carries a very high risk. Results from a well in the neighbouring PL 360, where Statoil is to drill the Lupin prospect, will be crucial for assessing the risk picture in PL 503.

Overview of licences

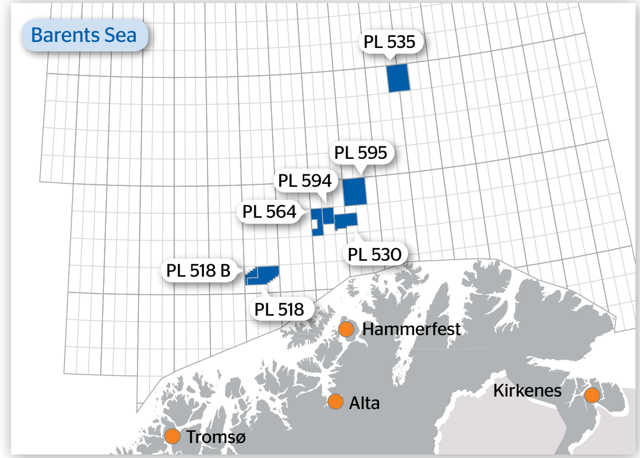
Licence	Interest	Operator	Drilling
Barents Sea			
PL 518	30%	Dong Energy	2011
PL 518B	30%	Dong Energy	A/A
PL 530	20%	GdFSuez	2011
PL 535	20%	Total	2013
PL 564	20%	OMV	DoD
PL 594	20%	Statoil	DoD
PL 595	40%	Edison	DoD
Norwegian Sea			
PL 385	15%	Statoil	2012
PL 510*	100%	North Energy**	2014
PL 526	40%	North Energy	DoD
PL 562	10%	EON Ruhrgas	DoD
PL 587	40%	Edison	DoD
PL 590	40%	North Energy	DoD
PL 601	20%	Wintershall	DoD
PL 656	10%	EON Ruhrgas	DoD
PL 693	15%	OMV	Dod
North Sea			
PL 299	20%	Dong Energy	2013
PL 370	10%	Wintershall	2012
PL 370B	10%	Wintershall	A/A
PL 450	15%	Det Norske	2012
PL 498	25%	Lotos	2012
PL 503	25%	Lotos	DoD
PL 503B	25%	Lotos	A/A
PL 616	20%	Edison	DoD

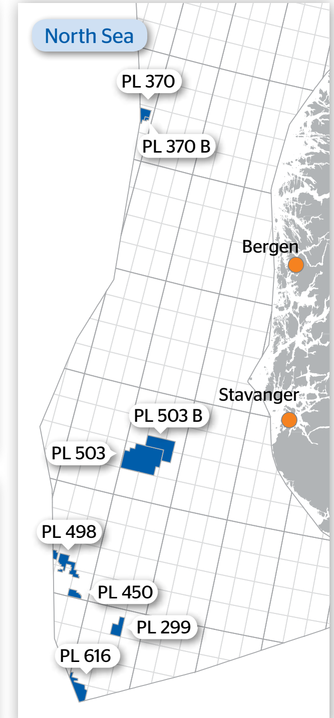
DoD indicates that the licence must take a drill or drop decision
A/A means that the well is the same as for the licence above
** Holding reduced to 20 per cent in January 2013*
*** Maersk Oil Norway operator from 1 January 2013*

Licences by NCS province

Photo: Lajos Samu

Licence map





Resource status

Reserves

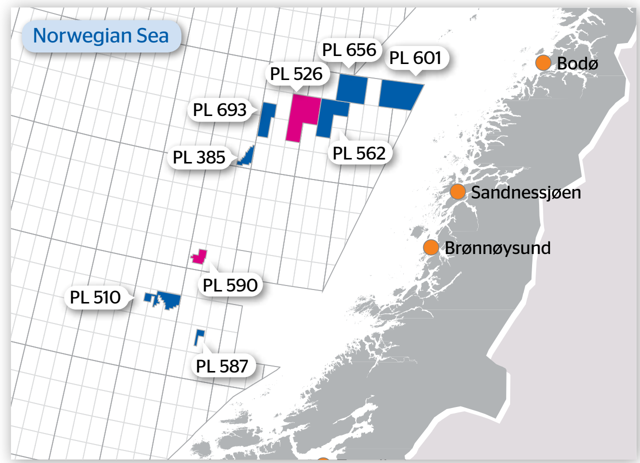
North Energy had no reserves to report at 31 December 2012.

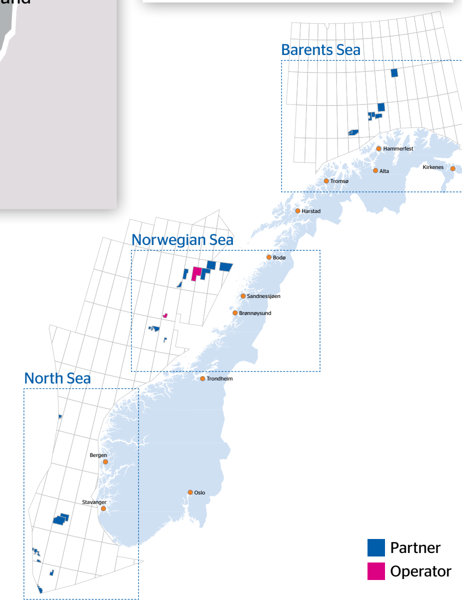
Contingent resources

The company has made two discoveries, Fogelberg in the Norwegian Sea and Norvarg in the Barents Sea. Located in PL 433, Fogelberg was found in the spring of 2010 and sold to Centrica in 2012. North Energy participated in the Norvarg discovery in the summer of 2011. It has estimated that this large gas find contains 260 million barrels of oil equivalent (P50). A 20 per cent holding accordingly gives the company 52 million boe in contingent resources. Norvarg will be appraised with a new well in the spring of 2013.

Undiscovered resources

North Energy is a young exploration company. Most of its resources remain to be discovered and are contained in prospects.





Norvarg

Planned for April 2013 with the *Leiv Eiriksson* rig, the second exploration well on the Norvarg structure is awaited with great anticipation. It is expected to provide better answers on reservoir production properties as well as the basis for a more dependable analysis of total volumes in the structure. The knowledge being acquired here builds further on extensive modelling work already done on Norvarg, and on several studies carried out to evaluate possible field development solutions in the area.

Photo: Christina Søgård

From left: Leif Finsveen, Ane Rasmussen, Johan Petter Barlindhaug, Heidi M Petersen, Harriet Hagan and Ola Krohn-Fagervoll. Photo: Egil Hansen

Board of directors

Johan Petter Barlindhaug
Chair (born 1940)
Barlindhaug has established northern Norway's largest consultancy, development and engineering company as well as several small industrial enterprises in the region. During his career, he has headed a number of companies, public bodies and research institution. He is a national expert on the far north, and a leading Norwegian specialist on the Russian oil and gas industry. Barlindhaug has also been responsible for several impact assessments at the interface between fishing, maritime transport and petroleum. He has been appointed a commander of the Royal Norwegian Order of St Olav for his contributions to society.

Harriet Hagan
Director (born 1956)
Hagan is general manager of Origo Kapital AS and has previously held a number of executive posts in companies large and small. Through her position in Origo, she was involved with the management of North Energy from an early stage. Hagan joined Origo in 2003 after serving as chief executive of Ishavskraft for five years. She has an MSc in business economics from the Norwegian School of Economics, and her experience includes Statoil's marketing department. Hagan has broad boardroom experience from many directorships, and she has also worked as a company adviser.

Leif Finsveen
Director (born 1951)
Finsveen is one of North Energy's founders, and has pursued a career in the energy sector. He is group chief executive of Salten Kraftsamband (SKS), and was previously CEO at Lofotkraft and Bodø Energi. Finsveen has an MSc in engineering from the Norwegian Institute of Technology in Trondheim.

Heidi M Petersen
Director (born 1958)
Petersen is self-employed. She has an MSc from the University of Trondheim (now the Norwegian University of Science and Technology). From 2000 to July 2007, she served as chief executive of Future Engineering AS and Rambøll Olje & Gass AS (Future was sold to Rambøll Gruppen AS in 2004). Petersen was with Kværner Oil & Gas from 1988, where she worked as an engineer, project manager and department manager on both offshore and land-based assignments before becoming head of Kværner Oil & Gas in Sandefjord in 1997. She headed a management buy-out there which led to the formation of Future Engineering in 2000. Petersen has broad experience of boardroom work at industrial, petroleum, energy supply and financial companies. She is now chair of Sandefjord Airport and TS Group (oil-based services), and a director of Arendal Fossekompani ASA, Eitzen Chemicals ASA, Calora Subsea AS and Glamox ASA.

Ola Krohn-Fagervoll
Director (born 1962)
Krohn-Fagervoll has an MSc in business economics and experience from such companies as Saga Petroleum, A T Kearney Management Consultants, Norwegian Air Shuttle, PetroAdvisor and Read Well Services. He has broad knowledge and understanding of the oil and gas industry. Krohn-Fagervoll is a director of Read ASA, Read Services AS, Read Well Research AS and Krohn Holding AS, and is currently deputy chair of Norwegian Air Shuttle.

Ane Rasmussen
Worker director (born 1969)
Rasmussen has eight years of experience in the petroleum business. With a degree in petroleum geology and geophysics from the University of Oslo, she has worked as a senior geologist with North Energy since 2008. Rasmussen was earlier employed by RES and AGR, where she worked as geological consultant for a number of oil companies and with particular experience of exploration.

Investor information

North Energy's goal is to create added value and to provide a good return for its shareholders over time. Emphasis is placed on openness and accessibility in its dialogue with the investor market.

North Energy is listed on the Oslo Axess exchange under the ticker code NORTH. Its share price fell during the year from NOK 8.41 to NOK 3.32 per share. The market value of the company declined from NOK 212.1 million at 31 December 2011 to NOK 135.5 million at the end of 2012. Earnings per share in 2012 were negative at NOK 2.94. This negative development can be attributed primarily to disappointing drilling results during the year.

The company had 40 813 448 shares at 31 December 2012. Outstanding shares in the company increased by 15 589 055 over the year as a result of the company's capital expansion in March 2012. Implemented with considerable participation by existing shareholders, this expansion contributed NOK 156 million in new equity.

North Energy has only one share class, and each share has one vote at the general meeting and carries an equal right to dividend. The company has not paid a dividend to date and, because of the investment programme and its financing, does not expect to do so for some years to come. The company's goal is to give the shareholders a good return over time by creating value and thereby contributing to a positive development of the share.

Owners

North Energy had 913 shareholders at 31 December 2012, and the 20 largest shareholders held 60.5 per cent of all the shares. The largest shareholders were unchanged from 31 December 2011: THS Partners, Elliott International LP, JPB AS, SKS Eiendom AS and Origo Kapital.

North Norwegian ownership remains strong, at 35 per cent of the shares in the company.

Holdings in the company break down geographically as follows

1. Northern Norway	35 per cent
2. UK	30 per cent
3. Southern Norway	28 per cent
4. Other	7 per cent

The largest shareholders in North Energy

No	Shareholder	Country	Holding	% share
1	DEUTSCHE BANK AG	UK	2 964 489	7.3%
2	JPB AS	Norway	2 783 423	6.8%
3	SKS EIENDOM AS	Norway	2 374 920	5.8%
4	EUROCLEAR BANK	Belgium	2 361 900	5.8%
5	ORIGO KAPITAL AS	Norway	1 343 569	3.3%
6	BANK OF NEW YORK – ELLIOTT	Cyprus	1 255 000	3.1%
7	HSBC BANK	UK	1 100 000	2.7%
8	DELPHI NORGE	Norway	1 034 000	2.5%
9	THE NORTHERN TRUST	UK	1 031 270	2.5%
10	IKM INDUSTRI-VEST	Norway	1 008 648	2.5%
11	OM HOLDING AS	Norway	969 819	2.4%
12	ONSHORE GROUP NORDLAND	Norway	933 340	2.3%
13	HAMNINBERG HOLDING	Norway	815 605	2.0%
14	CACEIS BANK	France	796 571	2.0%
15	BANK OF NEW YORK – LIVERPOOL	Guernsey	780 000	1.9%
16	KAPNORD FOND AS	Norway	727 895	1.8%
17	STATE STREET BANK	USA	722 917	1.8%
18	KLP AKSJE NORGE	Norway	686 080	1.7%
19	NINERIK AS	Norway	629 543	1.5%
20	KOMMUNAL LANDSPENSJON	Norway	510 500	1.3%
	20 largest shareholders		**24 829 489**	**60.8%**

Analyst coverage

A number of analysts monitor the company’s share on a continuous basis, and an overview of their contact details can be found at www.northenergy.no/investor.

- Swedbank First Securities
- Arctic Securities
- SB1 Markets
- Carnegie
- DNB Markets
- Pareto
- R S Platou
- Enskilda
- Nordea Markets

Directors' report 2012

The business
North Energy ASA was established on 4 September 2007. Its business purpose is to become a leading player in the north Norwegian oil and gas industry. Its primary focus is on the Norwegian and Barents Seas, but the company will also involve itself in commercially interesting prospects in the North Sea.

North Energy's head office is located in Alta, with a branch office in Oslo. Small offices with leading-edge regional expertise have also been established in Stavanger and Tromsø.

Important events
North Energy conducted exploration drilling during 2012 in PLs 450 Storebjørn, 370 Kakelborg and 498 Skagen in the North Sea and PL 385 Jette in the Norwegian Sea. Gas was found in PL 385 Jette, but the commercial potential remains to be clarified. The other three wells were found to be dry.

The company has been an energetic applicant in APA rounds. When awards were made in January 2012, it secured two priority licences from the 2011 round – PL 616 in the North Sea and PL 656 in the Norwegian Sea. A further licence – PL 693 in the Norwegian Sea – was obtained from the 2012 round. This was the only acreage sought by the company in that round.

North Energy has also developed its business operations through the purchase and sale of licence interests. An agreement was entered into on 2 May 2012 with Lime Petroleum Plc on the sale of holdings in four licences for a compensation of NOK 31.8 million. NOK 27.5 million of this sum was paid as a minimum amount regardless of the outcome of Lime's prequalification process, which was then initiated. Lime has now been approved as a licensee on the NCS, and the final financial settlement and licence transfer are expected to be completed during the first quarter of 2013.

In September 2012, North Energy announced that it was swopping 20 percentage points of its holding in PL 385 Jette for 20 per cent of PL 299 Frode, an oil prospect in the North Sea where drilling is due to start in the second quarter of 2013. North Energy contributed to a change of partners in PL 526 Vågar, operated by the company, by taking over the interests of licensees who wished to withdraw from the licence. Furthermore, the company sold interests in PL 526 to Lime, so that holdings in this licence are now evenly split between North Energy, Lime and EoN. A drilling decision for this licence is expected in the second quarter of 2013. North Energy also contributed to a change of partners in PL 510 and thereby to retention of the licence, where drilling is planned in late 2014.

It was announced in February 2012 that North Energy had reached agreement with Centrica Resources (Norge) on a sale of North Energy's 12 per cent holding in PL 433 Fogelberg, where a gas/condensate discovery was made in 2010. The sales sum was NOK 70 million. This transaction was approved by the government on 31 August, and the final sales sum including interest came to NOK 73 million. That represented an accounting gain of NOK 47 million for North Energy.

The company has a 20 per cent interest in PL 535 Norvarg, where a substantial gas discovery was made in 2011. The licence decided in the third quarter of 2012 to appraise the discovery through a well planned for the second quarter of 2013.

A share issue was conducted in February 2012 comprising 15 million new shares at a price corresponding to NOK 10 per share. Directed at new and large existing shareholders, it was oversubscribed at the issue price. This was followed up by a pure repair issue of 0.59 million shares priced at NOK 10 each, directed at the company's smaller shareholders. These issues were approved by an extraordinary general meeting on 2 March 2012.

The board also approved credit agreements with TGS Nopec and Rex Oil & Gas on 28 February 2013, involving frameworks of NOK 200 million and NOK 100 million respectively. These credits can be used only to acquire data, analyses and services from the respective lenders. Running for four years, the agreements give the lenders the right but not the obligation to convert the debt to shares at a pre-agreed time and at a conversion price of NOK 8. The agreements involve no buying obligation for North Energy, and possible debt can be redeemed at the termination of the agreements or earlier if desirable. These agreements represent a substantial strengthening of North Energy's liquidity and allow the company to take on new exploration commitments. An extraordinary general meeting is due to be held on 22 March 2013 with a motion to approve the opportunity for the lenders to convert debt into shares.

The company entered into a new three-year credit agreement with DNB and SEB in December 2012. With a framework of NOK 950 million, this allows North Energy to carry the state's share of exploration costs until these are refunded.

Selling the Fogelberg discovery, the issue yield, the exploration credit framework, and the agreements with TGS and Rex give North Energy a satisfactory capital base. On that basis, the company will work to strengthen its exploration programme for the next two years.

North Energy has a portfolio of 24 licences, divided almost equally between the Barents, Norwegian and North Seas. In terms of resources, however, the Barents Sea is clearly the most important province for the company.

Going concern

Pursuant to section 3-3a of the Norwegian Accounting Act, confirmation is hereby given that the going concern assumption is realistic. That assumption rests on the company's financial position, profit forecasts for 2013 and the company's long-term strategic predictions for the years to come.

Comments on the annual financial statements

The financial statements have been compiled in accordance with the rules of the Norwegian Accounting Act and the International Financial Reporting Standards (IFRS) approved by the European Union. The financial statements to which the comments below relate are for the North Energy group, comprising North Energy ASA and 4Sea Energy AS.

The board is not aware of any significant considerations which affect the assessment of the group's position at 31 December 2012, or the net result for the year, other than those presented in the directors' report and the financial statements.

Consolidated revenues came to NOK 46.9 million in 2012, representing the gain on the sale of PL 433 Fogelberg. The pre-tax loss was NOK 623.2 million, compared with NOK 471.8 million in 2011. This development reflects the expensing of four wells as well as a substantial commitment related to the 22nd licensing round. Licence and exploration costs account for the bulk of the loss. These rose from NOK 340.2 million in 2011 to NOK 540.1 million. Payroll costs declined from NOK 70.9 million to NOK 56.8 million over the same period, reflecting a reduction in the number of employees.

The net loss for 2012 came to NOK 111.5 million, compared with NOK 110.6 million the year before.

North Energy conducted issues – including a repair issue – totalling 15.59 million new shares at a price of NOK 10. This contributed to an equity of NOK 409.9 million at 31 December. With a balance sheet total of NOK 873.3 million, that represented an equity ratio of 47 per cent.

Among the balance sheet's assets, the tax credit under the refund scheme is valued at NOK 505 million. That represents a reduction of NOK 48.5 million from 2011. North Energy made a discovery in PL 535 Norvarg during 2012. Drilling costs for this discovery have been capitalised, and accounted for the bulk of the NOK 268.8 million in carried exploration and licence costs. The company held NOK 28.5 million in cash and cash equivalents at 31 December.

North Energy has no non-current interest-bearing debt, while its current liabilities consist largely of NOK 215.6 million drawn down on the exploration credit.

Cash flow from operating activities came to NOK 277.9 million, compared with a negative NOK 30.8 million in 2011. Investment activities yielded a negative cash flow of NOK 264.7 million, a decline of NOK 85.1 million from 2011. Net cash flow from financing activities was negative at NOK 18.9 million, compared with a positive NOK 328.2 million in 2011.

The board regards the company's financial position as satisfactory.

Future developments

The board takes a positive view of the basic outlook for the upstream market in the oil and gas industry.

Since its formation in 2007, North Energy's main goals have related to building up a strong organisation, being awarded or farming into good licences, executing exploration programmes and eventually investing in development and production.

One of the company's aims is to contribute to increased regional value creation as the Norwegian oil industry now moves northwards. This can be achieved through operatorships in licences which are in an active phase for drilling, development and production.

North Energy's demanding goals can be achieved through success with forthcoming wells. That embraces the appraisal well on PL 535 Norvarg and exploration drilling on PL 299 Frode. Efforts are also being made to build up a new and strong exploration programme, for which the company has now established a financial basis. North Energy has ambitions for securing good awards in the 22nd round, and is also working actively on farming into licences. Furthermore, the board takes the view that the collaboration with Rex Oil & Gas and TGS Nopec strengthens North Energy's position in relation to forthcoming licence applications. Several significant oil and gas discoveries in the Barents Sea over the past two years have helped to increase interest in licences in these waters. The Norvarg discovery, in which North Energy has a 20 per cent holding, and a substantial number of promising licences in the Barents Sea mean that the company is well positioned to play an active role in developing oil and gas operations in the far north. It will accordingly continue to build expertise and position itself in this region.

Forward-looking statements reflect the board's present view of future circumstances and are naturally uncertain, since new developments could easily lead to significant changes.

Corporate governance

Corporate governance in North Energy is based on the Norwegian code of practice for corporate governance. A separate status report related to the code has been included in this annual report. Any non-compliance with the code is specified and explained in the status report.

North Energy's corporate governance builds on the Norwegian oil industry's standards for internal control, and the group was qualified as a licensee in 2008 and as an operator on the NCS in 2009. Systems for internal control have subsequently been maintained and further developed, not least with regard to the demanding phase North Energy faces as a drilling operator. The company received a stock exchange listing in February 2010, and the group built up systems and routines ahead of that to handle the demands made on listed companies in terms of accurate financial reporting within specified deadlines.

The board intends to take account of all relevant factors in the company's overall risk picture. In this way, it seeks to ensure that the collective operational and financial exposure is at a satisfactory level.

North Energy's articles of association contain no provisions which wholly or partly exceed or restrict the provisions in chapter 5 of the Norwegian Public Companies Act.

A number of considerations which collectively ensure a good and broad composition have been taken into account when electing the board. These include an appropriate gender distribution, good strategic, petroleum technology and accounting expertise, a good division between owner-based and independent candidates, and relevant representation of company employees. The board functions collectively as an audit committee. No sub-committees have otherwise been appointed.

Instructions have been developed and adopted for the chief executive, the board and the company's nomination committee. The instructions for the board specify its principal duties and the responsibilities of the chief executive towards the board, as well as guidelines for handling matters between the board and the executive management. The instructions for the nomination committee specify its mandate and guidelines on its composition and mode of working.

The company's articles of association provide no guidance on the composition of the board, other than that it must comprise three to nine directors. The articles do not authorise the board to purchase the company's own shares or to issue shares. At the annual general meeting of 24 May 2012, the board was mandated to increase the share capital by up to 10 per cent. This mandate is unused, and expires with the 2013 AGM.

Risk assessments

Overall objectives and strategy

North Energy's financial risk management is intended to ensure that risks of significance for the company's goals are identified, analysed and managed in a systematic and cost-efficient manner. The company is exposed to financial risk in various areas, particularly the exchange rate between US dollars and Norwegian kroner as well as interest rates. However, the foreign exchange risk is limited since borrowings to date have not been made in foreign currencies. Monitoring of risk exposure and assessment of the need to deploy financial instruments are pursued continuously.

Liquidity risk

North Energy's core business is exploration for oil and gas on the NCS. Each drilling operation in which the company participates is expensive, and each well carries a substantial risk of being dry. The group's on-going financing needs are forecast, and the level of activity is tailored to the available liquidity. Its activities in this phase are financed from equity. The company has a loan of NOK 27.5 million from Lime Petroleum Plc, which will be redeemed and replaced by the purchase price for the licence interests Lime will receive now that it has pre-qualified as a licensee and once the authorities approve the transfer of the interests. No loans have otherwise been raised by North Energy apart from bridge financing which covers the state's exploration costs until these are refunded through the tax settlement which occurs 12-24 months after the costs have been incurred. North Energy's liquidity was significantly strengthened through a NOK 150 million share issue approved by an extraordinary general meeting of 2 March 2012, and the contribution of NOK 73 million from the sale of the Fogelberg discovery finalised in the third quarter of 2012. In addition, the loan agreements with TGS Nopec and Rex Oil & Gas represent a significant strengthening of North Energy's financial base.

Foreign exchange and market risk

North Energy is not involved in producing fields and accordingly has no direct exposure to large oil price fluctuations. The company has not entered into futures contracts or other transactions to reduce its foreign exchange risk and thereby its operational market risk.

Interest rate risk

The company is exposed to interest rate changes, since its debt carries floating interest rates. Fluctuations in interest rates may also affect investment opportunities in future periods.

Credit risk

The risk of bad debts is considered low, since the great bulk of the company's receivables in this phase relate to the Norwegian government and comprise the tax value of exploration costs.

Operational risk

North Energy is an enterprise where operational risk is closely related to its expertise. The company accordingly devotes attention to developing its expertise and organisation, and to its management systems. Furthermore, it will depend as an exploration company on the political desire to exploit resources in interesting areas.

HSE and the natural environment

The board and executive management of North Energy work closely with the employees to create a positive working environment and a good and secure workplace. All the items in the annual HSE plan were implemented, and the goals largely met. Sickness absence totalled 1.3 per cent in 2012, down from 2.9 per cent in 2011 and well below the national average.

The company is continuing its efforts to ensure good employee health, in part through fitness facilities, the provision of physiotherapists and ergonomic office arrangements. Special attention is paid to preventing typical repetitive strain injuries in a setting characterised by lengthy sitting at computer screens. Guidance on diet and exercise were also given priority in 2012.

North Energy's working environment committee (AMU) met four times in 2012. It followed up the company's employee survey, and the management has implemented appropriate measures. Cooperation with union officials has been constructive and made a positive contribution to the work of the AMU. The board regards the psycho-social working environment as satisfactory.

A new employee survey is planned for 2014.

As part of its preparations for an active operatorship, North Energy developed a new emergency response plan during 2012. To ensure the implementation of this plan as well as a good grasp of methodology and roles in the response organisation, the company conducted training in emergency management for leading personnel.

North Energy's activities in 2012 caused only limited pollution of the natural environment. Air travel is the biggest factor in that context. The company makes extensive use of modern video/voice conferencing between its offices, in part to restrict travel. Its operations make no use of environmentally harmful chemicals and do not generate dust or noise.

The company's head office in Alta received Eco-Lighthouse certification in 2012. These premises are located in a new and modern building equipped with an energy-saving ventilation system, night-reduction of heating and timer-controlled lighting. Conditions for a satisfactory indoor climate and energy-efficient office operation are good. The certification also means that energy consumption, waste sorting and carbon emissions are monitored regularly and that measures which can improve these factors are implemented with employees in order to reach new environmental targets.

North Energy participated in exploration drilling on PLs 450 Storebjørn, 370 Kakelborg, 498 Skagen and 385 Jette. All these operations were conducted without serious injury to personnel and equipment, and without unplanned discharges to the natural environment. A serious incident was recorded in the operation on PL 370 Kakelborg when an object was dropped on the drill floor. Nobody was injured, but the incident was categorised as a near-miss and reported to the authorities. North Energy fulfilled its compliance responsibility pursuant to the regulatory requirements in all the licences in which it participated in 2012.

Research and development
The company's commitment to research and development (R&D) is intended to support its operations and help it reach its operational and strategic goals. North Energy is a young company, where operations relate primarily to exploration, emergency preparedness and building up expertise. This also influences its R&D commitment, which included the establishment of collaboration with research teams and universities in Norway and St Petersburg during 2012.

Human resources and equal opportunities
North Energy had 39 employees at 31 December. Consultants have also been hired to strengthen the company's exploration operations.

The company has a multicultural working environment, with eight nationalities represented in the workforce. When making new appointments, it will continue to facilitate diversity in, but not confined to, gender, cultural background and experience. Remuneration is determined in accordance with the content of the work and the employee's qualifications. The remuneration of the executive management is described in the notes to the financial statements.

North Energy's goal is a workplace where equality of opportunity prevails between men and women. Its policy is that nobody should be subject to discriminatory treatment on the grounds of gender. Women account for 33 per cent of the workforce. The executive management comprises seven people, including four women, while the board has five shareholder-elected directors and one worker director elected by and from among the employees. In addition, the board has an observer elected by and from among the workforce. Two of the shareholder-elected directors are women. The company will continue to pay attention to gender equality, and wishes to maintain a high proportion of women in senior posts.

Ownership
North Energy had 913 shareholders at 31 December. The two largest are the UK's Elliot fund, which owns 10.8 per cent of the company, and THS Partners with 7.2 per cent. Its biggest Norwegian shareholders are JPB AS with 6.8 per cent and SKS Eiendom with 5.8 per cent. The bulk of the company's shareholders reside in northern Norway and London, but significant holdings are also located in Oslo and Stavanger.

Corporate governance
Corporate governance is the board's most important instrument for ensuring that the company's resources are managed in an optimum manner and contribute to long-term value creation for shareholders. In this connection, the board would refer to the separate presentation of the company's corporate governance in this report.

Coverage of net loss
North Energy had no distributable equity at 31 December. The board proposes that the net loss of NOK 136.3 million be transferred to uncovered losses.

Alta, 19 March 2013

Johan Petter Barlindhaug
Chair

Leif W Finsveen
Director

Harriet Hagan
Director

Ola Krohn-Fagervoll
Director

Heidi M Petersen
Director

Ane M S Rasmussen
Director

Erik Karlstrøm
CEO

Corporate governance

Pursuant to section 3, sub-section 3b of the Norwegian Accounting Act, North Energy is required to include a description of its principles for good corporate governance in the directors' report of its annual report or alternatively refer to where this information can be found. The Norwegian Corporate Governance Board (NCGB) has issued the Norwegian code of practice for corporate governance (the code), which can be found at www.nues.no. Observance of the code is based on the "comply or explain" principle, which means that companies must either explain how they comply with each of the recommendations in the code or explain why they have chosen an alternative approach.

The Oslo Stock Exchange requires that listed companies provide an annual explanation of their corporate governance policy in line with the applicable code. Current requirements for companies listed on the Oslo Stock Exchange can be found at www.oslobors.no.

The following presentation of corporate governance has the same structure as the code, and follows the code's structure with 15 main subjects.

1. Implementation and reporting on corporate governance

North Energy's decisions and actions will be based on its core values:

- at the forefront
- competent
- bridge-builder
- a fearless voice in the north

It is the executive management's job to ensure that the areas of responsibility, individually and collectively, are prioritised on the basis of these core values and in accordance with the code. The company has drawn up guidelines on ethics and corporate social responsibility, which are available on the company's website at www.northenergy.no.

2. The business

North Energy's business purpose is to pursue exploration for as well as development and production of oil and gas on the NCS and in the Russian sector of the Barents Sea, and to be able to own or participate in companies which conduct similar activities, including through subsidiaries. The company's vision is to develop a leading and profitable oil and gas company which contributes actively to industrial value creation in the far north. This will be achieved through the following main strategies:

- acquiring and being awarded the best licences in the northern part of the Norwegian North Sea and the Barents Sea
- ensuring an adequate capital base to finance the company through exploration, development and into production
- ensuring access to good investment opportunities by being an attractive partner for government and leading oil companies
- being a credible and attractive partner for important stakeholders, such as suppliers/contractors, the fishing industry and environmental interests
- establishing a basis for long-term value development and spin-offs in the far north.

North Energy's articles of association specify clear parameters for its operations, while visions, goals and strategies are enshrined in its management system. Work to prepare the company for operator assignments on the NCS continued during 2012, and updates to procedures and process descriptions have been made in that connection.

Further information on the company's articles of association can be found at www.northenergy.no.

3. Equity and dividends

Since its formation in 2007, North Energy has been solely an exploration company without revenues. Its activities are financed through equity, which has been significantly strengthened through the sale of the company's interest in the Fogelberg gas discovery, the sale of exploration licences and the issue of new shares. A capital expansion and a subsequent repair issue were conducted in February-March 2012 through the issue of 15.6 million new shares at a subscription price of NOK 10. Furthermore, the board was mandated by the annual general meeting in 2012 to issue new shares up to a limit of 10 per cent of the existing number of shares. This mandate is valid until the next AGM, but has not been utilised.

The company's equity totalled NOK 409.9 million at 31 December. That represents 47 per cent of its total capital. Financial liquidity is regarded as satisfactory in relation to the company's future obligations. Cash, cash equivalents and provision for tax refunds, less interest-bearing debt, totalled NOK 259 million at 31 December. In addition, North Energy has an overdraft facility of NOK 950 million, of which NOK 187 million had been drawn down at 31 December. North Energy has not paid a dividend and does not expect to make any dividend payment in the next few years.

4. Equal treatment of shareholders and transactions with close associates

Should North Energy be a party to a transaction with close associates of the company or with companies in which directors or senior executives, or their close associates, have a significant interest, directly or indirectly, the parties concerned must immediately notify the board. All such transactions must be approved by the chief executive and the board and, where required, also be reported to the market. North Energy made no investment in its own shares during 2012.

5. Freely negotiable shares

The North Energy share is listed on the Oslo Axess exchange. All the shares are freely negotiable. The articles of association impose no restrictions on the negotiability of the share.

6. General meetings

The company's general meetings in 2012 were held in accordance with the Public Companies Act.

The general meeting is North Energy's highest authority. The board endeavours to ensure that the general meeting is an effective forum for communication between the board and the company's shareholders. As a result, the board makes provision for the highest possible participation by the company's owners at the general meeting. Notice of the meeting and supporting documentation for items on the agenda are made available on the company's website no later than 21 days before the general meeting. Provision is also made to vote in advance of the company's general meeting. Elections are organised in such a way that it is possible to vote separately for each candidate to serve on the company's elected bodies. Shareholders who cannot attend the general meeting in person are able to appoint a proxy to vote on their behalf. Proxy forms have been drawn up which allow the proxy to be instructed how to vote on each agenda item and for each candidate for election.

The board determines the agenda for the general meeting. However, the most important items on the agenda are dictated by the Public Companies Act and the company's articles of association. Minutes of the meetings are posted to the company's website the day after the general meetings have been held at the latest.

7. Nomination committee

The job of the nomination committee is to submit recommendations, with justifications, to the general meeting on the election of shareholder-elected directors and to nominate the chair of the board. Furthermore, the committee will submit proposals for the remuneration of directors and recommend members of the committee. Establishment of the committee is stipulated in the articles of association, and its work is regulated by instructions adopted by the general meeting. Nomination committee members are independent of the board and the company's executive management.

Members of the committee receive a fixed remuneration which is not dependent on results. The general meeting decides on all recommendations made by the committee.

8. Corporate assembly and board of directors: composition and independence

North Energy has chosen not to have a corporate assembly.

The board is organised in accordance with the Public Companies Act, with two women and three men as shareholder-elected directors. All have broad experience. Two of these directors are elected independently of the company's shareholders. In addition, one director and an observer are elected from and by the company's employees. Neither of them belong to the executive management. The directors represent both industry-specific and professional expertise from national and international companies. More information on each director is available at www.northenergy.no. Shareholder-elected directors are elected for two-year terms. Elections are conducted in such a way that new directors can join the board every year.

North Energy takes the view that all its directors are independent of the company's executive management and significant business partners. At present, four of the directors own shares directly or indirectly in North Energy. No director holds options to buy further shares.

9. The work of the board of directors
The board's work is regulated by instructions. Its duties consist primarily of managing North Energy, which includes determining the company's strategy and overall goals, approving its action programme and ensuring an acceptable organisation of the business in line with the company's articles of association. The board can also determine guidelines for the business and issue orders in specific cases. The board must look after North Energy's interests as a whole, and not act as individual shareholders.

A clear division of responsibility has been established between the board and the executive management. The chief executive is responsible for operational management of the company and reports regularly to the board.

The administration is responsible for preparing matters for board meetings. Ensuring that the work of the board is conducted in an efficient and correct manner in accordance with relevant legislation is the responsibility of the chair. The board ensures that the auditor fulfils a satisfactory and independent control function. It presents the auditor's report to the general meeting, which also approves the remuneration of the auditor. It was resolved in 2010 that the audit committee's duties would be discharged directly by the board.

The board conducts an annual evaluation of its work, competence and performance.

Thirteen board meetings were held in 2012, five of them over the phone, and average attendance by directors was 88 per cent.

10. Risk management and internal control
High standards are set for internal control and management systems in the oil and gas industry. Further development and improvement of North Energy's management system is a continuous process, which was pursued at all levels in the company during 2012. Enhancing processes and associated documentation is a priority job in the company's corporate governance and risk management. North Energy worked systematically during the year on implementing the management system in the organisation in order to secure increased awareness of roles and responsibilities among its employees. The company's management system now provides a good tool for the executive management and the workforce, and reduces the risk of errors in its processes. While facilitating learning, the system simultaneously provides a sense of security and ensures continuity in the exercise of the company's most important processes.

The executive management follows up conditions which present the company with a financial risk on a daily basis, and reports these to the board. Non-conformities are followed up systematically and corrective measures adopted. The company has implemented a system for registration and follow-up of such measures.

Reporting to the board gives emphasis both to the on-going risk in daily operations and to risk associated with the investment opportunities presented. In addition, the board considers an overall risk assessment at least twice a year which takes account of all the company's activities and the exposure these involve. The board is also presented at regular intervals with the auditor's assessments of financial risk.

11. Remuneration of the board of directors
The nomination committee recommends the directors' fees to the general meeting, and takes account of their responsibility, qualifications, time taken and the complexity of the business.

Directors' fees are not profit-related. North Energy has not issued any options to its shareholder-elected directors.

None of the shareholder-elected directors have undertaken special assignments for North Energy other than those presented in this report, and none have received compensation from the company other than normal directors' fees.

12. Remuneration of executive personnel
The board determines the remuneration of the chief executive and takes account of the responsibility involved, qualifications, the complexity of the work and the results achieved. Furthermore, the board determines the principles for remunerating other senior executives in the company, and these are explained in this annual report. All employees have the same performance-based bonus scheme. Further information is provided in the notes to the annual financial statements.

13. Information and communications
North Energy keeps shareholders and investors regularly informed about its commercial and financial status. The requirements for such information have been increased by the company's stock exchange listing and the expansion in

the number of its shareholders. The board is concerned to ensure than players in the stock market receive the same information at the same time, and all financial and commercial information is accordingly made available on the company's website. Stock exchange announcements are distributed through Thompson Reuters at www.newsweb.no.

The annual financial statements for North Energy are made available on its website at least three weeks before the general meeting. Interim reports are published within two months of the end of each quarter. Quarterly presentations are transmitted directly over the internet. North Energy publishes an annual financial calendar which is available on the Oslo Stock Exchange website.

The board gives emphasis to openness and equal treatment in relation to all players in the market, and strives at all times to give as correct a picture as possible of the company's financial position.

14. Takeovers

North Energy's articles of association contain no restrictions on or defence mechanisms against the acquisition of the company's shares. In accordance with its general responsibility for the management of North Energy, the board will act in the best interests of all the company's shareholders in such an event. Unless special grounds exist, the board will not seek to prevent takeover offers for the company's business or shares. Should an offer be made for the shares of North Energy, the board will issue a statement which recommends whether shareholders should accept it.

15. Auditor

The annual financial statements are audited. The board receives and considers the auditor's report after the financial statements for the relevant year have been audited. The auditor submits an annual plan for the conduct of audit work, and attends board meetings when the consideration of accounting matters requires their presence. In at least one of these meetings, the auditor makes a presentation to the board without the executive management being present. The auditor presents a declaration of independence and objectivity. Relations with the auditor are regularly reviewed by the board to ensure that the auditor exercises an independent and satisfactory control function. The board presents the auditor's fee to the general meeting for approval by the shareholders.

Alta, 19 March 2013

Johan Petter Barlindhaug
Chair

Leif W. Finsveen
Director

Harriet Hagan
Director

Heidi M Petersen
Director

Ola Krohn-Fagervoll
Director

Ane M S Rasmussen
Director

Erik Karlstrøm
CEO

Financial statements

North Energy group

Consolidated income statement

(NOK 1 000)	Note	2012	2011
Gain from sales of licences	22	46 931	0
Payroll and related expenses	5	(56 774)	(70 949)
Depreciation and amortisation	16	(10 183)	(7 179)
Exploration expenses	17	(540 143)	(340 154)
Other operating expenses	6	(41 074)	(40 004)
Operating loss		**(601 243)**	**(458 286)**
Financial income	18	18 735	18 602
Financial expenses	18	(40 674)	(32 095)
Net financial items		**(21 940)**	**(13 494)**
Loss before income tax		**(623 183)**	**(471 780)**
Income tax credit	15	511 664	361 223
Loss for the year		**(111 519)**	**(110 556)**
Earnings per share (NOK per share)			
- Basic	13	(2.94)	(4.39)
- Diluted	13	(2.94)	(4.39)

Consolidated statement of comprehensive loss

(NOK 1 000)	Note	2012	2011
Loss for the year		**(111 519)**	**(110 556)**
Other comprehensive income, net of tax:			
Actuarial gain/(loss) pension	21	1 836	82
Total other comprehensive income, net of tax		**1 836**	**82**
Total comprehensive loss for the year		**(109 684)**	**(110 474)**

Consolidated balance sheet

(NOK 1 000)	Note	31.12.12	31.12.11
ASSETS			
Non-current assets			
Property, plant and equipment	16	15 754	22 072
Capitalised exploration and licence costs	17	268 839	376 719
Other receivables	7	19 599	19 765
Total non-current assets		**304 192**	**418 556**
Current assets			
Prepayments and other receivables	8	35 637	54 854
Tax receivable, refund tax value exploration expenses	15	489 881	553 550
Tax receivable, tax value offshore losses	15	15 130	0
Cash and cash equivalents	9	28 496	34 206
Total current assets		**569 144**	**642 610**
Total assets		**873 336**	**1 061 167**

(NOK 1 000)	Note	31.12.12	31.12.11
EQUITY AND LIABILITIES			
Equity			
Share capital	10	40 813	25 224
Share premium		740 387	606 141
Other paid-in capital		29 570	29 570
Retained earnings		(400 843)	(291 159)
Total equity		**409 928**	**369 777**
Liabilities			
Non-current liabilities			
Pension liabilities	21	13 254	18 766
Deferred tax	15	111 829	202 225
Total non-current liabilities		**125 083**	**220 991**
Current liabilities			
Current borrowings	11	215 552	348 348
Trade creditors		44 070	66 108
Other current liabilities	12	78 703	55 943
Total current liabilities		**338 325**	**470 399**
Total liabilities		**463 408**	**691 390**
Total equity and liabilities		**873 336**	**1 061 167**

Alta, 19 March 2013

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Director

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Director

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Director

Ane M S Rasmussen
Director

Erik Karlstrøm
CEO

Consolidated statement of changes in equity

(NOK 1 000)	Note	Share capital	Share premium	Other paid-in capital	Retained earnings	Total equity
Equity at 1 January 2011		25 150	606 141	29 570	(180 685)	480 176
Transactions with owners:						
Share issues		75	0	0	0	75
Comprehensive income:						
Total compehensive income for 2011		0	0	0	(110 474)	(110 474)
Equity at 31 December 2011		**25 224**	**606 141**	**29 570**	**(291 159)**	**369 777**
Equity at 1 January 2012		25 224	606 141	29 570	(291 159)	369 776
Transactions with owners:						
Share issues		15 589	140 301	0	0	155 891
Share issue expenses (net after tax)		0	(6 056)	0	0	(6 056)
Comprehensive income:						
Total compehensive income for 2012		0	0	0	(109 684)	(109 684)
Equity at 31 December 2012		**40 813**	**740 387**	**29 570**	**(400 843)**	**409 928**

Consolidated cash flow statement

(NOK 1 000)	Note	2012	2011
Cash flow from operating activities			
Loss before income tax		(623 183)	(471 780)
Adjustments:			
Tax refunded	15	553 523	341 251
Deprecitiation	16	10 183	7 179
Gain from sales of licences	22	(46 931)	0
Profit/(loss) on disposal of property, plant and equipment		0	(73)
Impairment of capitalised exploration expenses	17	332 394	59 033
Pensions		(706)	925
Transaction costs and interest on borrowings recognised in P&L	18	33 383	20 068
Changes in trade creditors		(22 038)	18 924
Changes in other accruals		41 296	(6 363)
Net cash flow from operating activities		**277 921**	**(30 837)**
Cash flow from investing activities			
Purchase of property, plant and equipment	16	(3 865)	(13 212)
Proceeds from sales of licences	22	73 237	0
Proceeds from sale of property, plant and equipment		0	202
Capitalised exploration and licence costs	15,17	(337 758)	(337 440)
Proceeds from payments of other non-current receivables	7	3 703	631
Net cash flow from investing activities		**(264 684)**	**(349 819)**
Cash flow from financing activities			
Funds drawn current borrowings	11	572 500	700 000
Repayments of current borrowings	11	(700 091)	(347 827)
Transaction costs and interest on borrowings paid	11,18	(38 837)	(23 400)
Proceeds from share issues		147 480	75
Net cash flow from financing activities		**(18 948)**	**328 848**
Net change in cash and cash equivalents		**(5 710)**	**(51 809)**
Cash and cash equivivalents at 1 January	9	34 206	86 015
Cash and cash equivivalents at 31 December	**9**	**28 496**	**34 206**

Notes

North Energy group

Note 1

General information

The consolidated financial statements of North Energy were approved by the board of directors and CEO at 19 March 2013.

North Energy ASA is a public limited company incorporated and domiciled in Norway, with its main office in Alta. The company's shares were listed on Oslo Axess on 5 February 2010.

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

Note 2

Summary of significant accounting policies

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

2.1 Basis for preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and in accordance with the additional requirements pursuant to the Norwegian Accounting Act.

The financial statements have been prepared on a historical cost basis.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of North Energy ASA and its subsidiary 4Sea Energy AS. Subsidiaries are all entities over which the group has the power to govern the financial and operating policies (control), generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group, and they are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains and losses on transactions between the group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

Acquisitions of subsidiaries are accounted for using the acquisition method of accounting. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition costs are expensed as incurred. The excess of the consideration transferred over the fair value of the identifiable net assets of the subsidiary acquired is recorded as goodwill. Each acquisition is considered individually to determine whether the acquisition should be deemed a business combination or an asset acquisition. When acquisitions are deemed to be asset acquisitions, no deferred tax on initial differences between carrying values and tax bases are recorded, nor is any goodwill recorded at the date of acquisition.

2.3 Foreign currency

Functional currency and presentation currency

The group's presentation currency is Norwegian kroner (NOK). This is also the parent company's and the subsidiary's functional currency.

Transactions in foreign currency

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

2.4 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any impairment charges. Depreciation is calculated on a straight line basis over the asset's expected useful life and adjusted for any impairment charges. Expected useful lives of long-lived assets are reviewed annually and, where they differ from previous estimates, depreciation periods are changed accordingly. Ordinary repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred. The costs of major renovations are included in the asset's carrying amount when it is probable that the company will derive future economic benefits. 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.

Property, plant and equipment are reviewed for potential impairment whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs required to sell the asset and its value in use. The value in use is determined by reference to discounted future net cash flows expected to be generated by the asset. The difference between the asset's carrying amount and its recoverable amount is recognised in the in income statement as impairment. Property, plant and equipment that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.5 Capitalised exploration and licence costs

Exploration costs for oil and gas properties

The group uses the successful efforts method to account for exploration costs. All exploration costs, with the exception of acquisition costs of licences and drilling costs of exploration wells are expensed as incurred. Costs related to drilling 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 licences are capitalised as intangible assets. Capitalised costs of acquiring licences and drilling exploration wells are assessed for impairment when facts and circumstances suggest that the carrying amount may exceed the recoverable amount. The recoverable amount is the higher of the asset's fair value less costs required to sell the asset and its value in use. The value in use is determined by reference to discounted future net cash flows expected to be generated by the asset. The difference between the asset's carrying amount and its recoverable amount is recognised in the income statement as impairment.

Capitalised exploration and licence costs will be depreciated using the unit-of-production method, if and when reserves are produced.

2.6 Farm in and farm out in the exploration phase

Agreements in connection with acquisition/sale of interests in licences in the exploration phase (farm in/farm out agreements), often involve a situation where the owner of a working interest (the farmor) transfers a portion of its working interest to another party (the farmee) in return for the farmee's performance of some agreed upon action. For example, the farmee may agree to cover/carry drilling expenses for the farmor limited to a fixed amount. In return, the farmor agrees to transfer a portion of the working interest in the property to the farmee. This well carry/carried interest is accounted for by the farmee as the costs occur and is classified in accordance with the policy for treatment of the exploration expenses (for North Energy, the successful efforts method). The farmor does not record any profit or loss but accounts for the well carry as an expense reduction when it occurs.

A farm in/farm out agreement is recognised when risks and rewards of ownership are transferred, which usually take place when necessary public approvals are given.

2.7 Interests in joint ventures

The group's investments in joint ventures, including jointly controlled operations (oil and gas licences), are accounted for by recognising the company's share of each joint venture's individual income, expenses, assets, liabilities and cash flows. Each item is classified and presented in its respective line-items in the financial statements.

2.8 Leases (as lessee)

Financial leases

Leases where the group assumes most of the risk and rewards of ownership are classified as financial leases. The group does not have any such leases.

Operating leases

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

2.9 Receivables

Receivables are initially recognised at fair value plus any transaction costs. The receivables are subsequently carried at amortised cost using the effective interest method. Impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition and this loss event (or events) has an impact on the estimated future cash flows that can be reliably estimated. The amount of the loss is measured as the difference between the carrying amount and the present value of estimated future cash. The asset's carrying amount is reduced and the amount of the loss is recognised in the income statement. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in the income statement.

2.10 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits with banks and other current highly liquid investments with original maturities of three months or less.

2.11 Borrowings

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

2.12 Taxes

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

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

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

2.13 Pension plans

Pension plans are financed through payments to insurance companies, and are determined on the basis of periodic actuarial estimates. The group 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 date less the fair value of the plan assets. The pension liability is estimated yearly by an independent actuary, based on a linear method. The present value of the defined benefits is determined by discounting the estimated future payments by the interest on a bond issued by a company with a high credit rating in the same currency as the benefit will be paid in, and with terms approximately equal to the terms of the related pension liability.

Variances in estimates owing to new information or changes in actuarial assumptions are recognised directly in equity through the statement of comprehensive income in the period in which they arise.

Changes in pension plan benefits are recognised immediately in the income statement, unless the changes to the pension plan are conditional on the employee remaining in service for a specified period of time (the vesting period). In this case, the costs of changed benefits are amortised on a straight-line basis over the vesting period.

2.14 Share-based payment

The group has share-based payment consisting of bonus shares as part of the group's general bonus programme for employees.

Fair value of the bonus shares is charged to expenses. The group recognises a corresponding increase in equity, classified as other paid-in capital.

2.15 Provisions

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

The group recognises a provision and an expense for severance payments when there exists a legal obligation to make severance payments.

The group recognises a provision and an expense for bonuses to employees, when the company is contractually obliged or where there is a past practice that has created a constructive obligation. The part of the bonus which is equity-settled (the bonus shares) is charged to expenses with a corresponding increase in equity.

2.16 Trade creditors

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

2.17 Contingent liabilities

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

2.18 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary shares using the weighted average number of ordinary shares outstanding during the year after deduction of the average number of treasury shares held over the period.

The calculation of diluted earnings per share is consistent with the calculation of the basic earnings per share, but gives at the same time effect to all dilutive potential ordinary shares that were outstanding during the period, by adjusting the profit/loss and the weighted average number of shares outstanding for the effects of all dilutive potential shares, i.e.:

- The profit/loss for the period attributable to ordinary shares is adjusted for changes in profit/loss that would result from the conversion of the dilutive potential ordinary shares.
- The weighted average number of ordinary shares is increased by the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2.19 Segment reporting

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

2.20 Cost of equity transactions

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

2.21 Cash flow statement

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

2.22 Events after the balance sheet date

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

2.23 Changes in accounting policies and disclosures

(a) New and amended standards and interpretations

Amendments to standards effective for the accounting periods starting 1 January 2012 did not have any impact on the group's financial statements.

(b) IFRS and IFRIC issued but not adopted by the group

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the group are listed below.

None of the standards, amendments and interpretation to existing standards are assessed to have a material impact on the financial statements.

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income (Amendment)

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment may affect presentation only and has there no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 19 Employee Benefits (Amendment)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2014 (IASB effective date is 1 January 2013).

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12. IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2014 (IASB effective date is 1 January 2013).

IAS 32 - Amendment: Offsetting Financial Assets and Financial Liabilities.

These amendments clarify the meaning of «currently has a legally enforceable right to set-off» and also clarify the application of the IAS 32 offsetting criteria to settlement. The amendment becomes effective for annual periods beginning on or after 1 January 2014.

IFRS 7 Financial Instruments - Amendment: New disclosure requirements - Offsetting of Financial Assets and Financial Liabilities. The IASB has introduced new disclosure requirements regarding the effect of netting arrangements. The amendment becomes effective for annual periods beginning on or after 1 July 2013.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. According to IASB the standard is effective for annual periods beginning on or after 1 January 2015. EU has not yet decided on effective date. The adoption of the first phase of IFRS 9 may have an effect on the classification and measurement of the Group's financial assets and financial liabilities.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after 1 January

2014. (IASB effective date is 1 January 2013).

IFRS 11 Joint Arrangements
IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard becomes effective for annual periods beginning on or after 1 January 2014 (IASB effective date is 1 January 2013).

IFRS 12 Disclosure of Involvement with Other Entities
IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2014. (IASB effective date is 1 January 2013).

IFRS 13 Fair Value Measurement
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. This standard becomes effective for annual periods beginning on or after 1 January 2013.

Note 3
Financial risk management

3.1 Financial risks
Exploration for oil and gas involves a high degree of risk, and the group 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 a few prospects that are explored are ultimately developed into production.

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

(a) Credit risk
The group is mainly exposed to credit risk related to bank deposits, receivables from joint ventures and loans to employees. The exposure to credit risk is monitored on an ongoing basis. As all counterparties have a high credit rating, there are no expectations that any of the counterparties will not be able to fulfil their liabilities. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

(b) Interest rate risk
The group's exposure to interest rate risk is related to usage of the credit facility, with floating interest rate conditions. The group is therefore exposed to interest rate risk as part of its normal business activities and the aim is to keep this risk at an acceptable level.

The group has a revolving credit facility which entitles the group to borrow up to NOK 950 million. The interest rate is NIBOR + 2.25%. See note 11 for further information. The loan is secured by a pledge in tax receivables from refund pursuant to the Norwegian Petroleum Tax Act and the interests in production licences which the company at any time has. The group has no other interest-bearing borrowings with floating interest rate conditions.

Sensitivity analysis:
Interest rate sensitivity is calculated on the basis of exposure to interest-bearing debt with floating interest rate conditions on the balance sheet date.
2012: If NIBOR had been 50 basis points higher/lower, the group's loss after tax would have been NOK 709 000 lower/higher.
2011: If NIBOR would have been 50 basis points higher/lower, the group's loss after tax would have been NOK 1 268 000 lower/higher.

(c) Liquidity risk
The company's liquidity risk is the risk that it will not be able to meet its financial obligations as they fall due. Sufficient liquidity will be held in regular bank accounts at all times to cover expected payments relating to operational activities and investment activities for two weeks ahead. The exploration drawing facility is used when

cash liquidity is needed. In addition, short-term (12 months) and long-term (five years) forecasts are prepared on a regular basis to plan the group's liquidity requirements. These plans are updated regularly for various scenarios and form part of the day-today decision basis for the group's board of directors. Some reporting requirements are associated with the agreement with the bank syndicate that furnished the credit facility, including quarterly updates of a revolving liquidity budget for the next 12 months. The company's objective for the placement and management of excess capital is to maintain a very low risk profile and very good liquidity. As of 31 December 2011, the group's excess liquid assets are all deposited in bank accounts. The group's financial liabilities, both for 2011 and 2012 are current. Funds drawn (credit facility), both for 2011 and 2012, fall due within 12 months (in December the following year). The group's other financial liabilities, both for 2011 and 2012, fall due within 0 - 6 months.

(d) Currency risk
The parent company's and the subsidiary's functional currency is the NOK. The group is exposed to currency risk related to its activities because the value of potential discoveries is correlated with the USD and parts of the group's expenses are USD-based. The group has not entered into any agreements to reduce its exposure to foreign currencies. A weak Norwegian krone will increase expenses, and vice versa with a strong Norwegian krone.

3.2 Capital management
The group's aim for management of capital structure is to secure the business in order to yield profit to shareholders and contributions to other stakeholders. 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 group can pay dividends to its shareholders, issue new shares or sell assets/licences to reduce debt. The group may buy its own shares. The point of

Note 4

Critical accounting estimates and judgements

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

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

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

a) Tax receivable from refund tax value exploration expenses
The Norwegian taxation authorities may have a different understanding than the company regarding the definition of indirect exploration expenses pursuant to the Norwegian Petroleum Tax Act. See note 15.

b) Deferred tax/tax assets
Most critical estimates influencing the carrying amount are related to valuations/judgement of utilisation of deferred tax assets. See note 15.

c) Capitalised exploration and licence costs
Capitalised exploration and licence costs are assessed for impairment when facts and circumstances suggest that the carrying amount may exceed the recoverable amount. The recoverable amount is the higher of the asset's fair value less costs required to sell the asset and its value in use. The value in use is determined by reference to discounted future net cash flows expected to be generated by the asset.

d) 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 the discount rate. Changes in this assumption will influence the carrying amount of the pension liabilities.

The group determines a suitable discount rate by the year end. This is the rate to be used when calculating the present value of future estimated outgoing cash flows needed to settle the pension liabilities. When determining a suitable discount rate, the group considers the interest rate of registered bonds of high quality issued in the same time for this is dependent on changes in market prices. The group monitors its capital structure using an equity ratio, which is total equity, divided by total assets. As at 31 December 2012, the equity ratio was 46.9% (34.8% as at 31 December 2011).

The company will handle any increased future capital requirements through selling assets, raising new capital, taking up loans, entering into carry agreements, strategic alliances and any combination of these, and by adjusting the company's level of activity if required.

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 presented in note 21.

4.2 Critical judgements in applying the company's accounting policies
Management has made judgements also in the process of applying the group's accounting policies.

Such judgements with the most significant effect on the amounts recognised in the financial statements are presented in the following:

a) Accounting policy for exploration expenses
The group uses the successful efforts method to account for exploration costs. All exploration costs, with the exception of acquisition costs of licences and drilling costs of exploration wells, are expensed as incurred.

Note 5

Payroll costs, remuneration of directors and management

Amounts in NOK 1 000	2012	2011
Salaries	40 738	50 705
Payroll tax	2 978	3 396
Pension costs (see note 21)	8 862	12 569
Other benefits	4 197	4 279
Total	56 774	70 949
Average number of employees	41	46

Remuneration to directors and management in 2012:

Amounts in NOK 1 000	Directors' fees	Salaries	Bonus	Pension	Other*
Management					
Erik Karlstrøm (CEO)		2 780	459	4 552	96
Knut Sæberg (CFO)		2 166	330	390	36
Erik Henriksen (vice president exploration)		1 910	136	350	30
Astrid M Tugwell (vice president development)		1 411	163	308	21
Vigdis Wiik Jakobsen (vice president for business development and portfolio)		1 598	203	382	24
Marion Høgmo (vice president administration and HR)		1 017	115	152	24
Kristin Ingebrigtsen (vice president strategy and PA/PR)		1 208	124	184	21
Board of directors					
Johan P Barlindhaug (chair)	400				
Leif W Finsveen (director)	135				
Harriet Hagan (director)	135				
Ola Krohn-Fagervoll (director)	0				
Ane Marta S Rasmussen (director)	0				
Heidi Marie Petersen (director)	135				
Brynjar K Forbergskog (former director)	135				
Ole Njærheim (former director)	135				
Guri Helene Ingebrigtsen (former director)	135				
Hans Kristian Rød (former director)	135				
Jørn Olsen (former director)	90				
Totalt	1 435	12 090	1 530	6 319	254

* Other includes benefits from free car, loan interest rate benefit, allowances to cover telephone and internet, training fee, group life insurance and travel insurance.

Remuneration to CEO:

The company's CEO has an agreement with an annual salary of NOK 2,76 million. Other benefits include free car, loan interest rate benefit, and regular allowances to cover telephone, internet, training fee, pension, group life insurance and travel insurance. In addition, he is included in the company's general employee bonus programme as determined by the board of directors. The bonus is limited to 1/3 of fixed salary, with distribution 50/50 in cash and bonus shares, where the cash bonus is earned first. In the event of resignation at the request of the board of directors, the CEO has a right to a severance payment equivalent to two years of gross fixed salary. If the CEO resigns, there is no severance payment. The CEO also has an early retirement pension scheme from the age of 62 until the ordinary retirement age (67 years), where the pension is 67% of final salary paid.

Bonus programme:

The management is included in the company's general employee bonus programme as determined by the board of directors. The bonus is limited to 1/3 of fixed salary, with distribution 50/50 in cash and bonus shares, where the cash bonus is earned first. The bonus is linked to the achievement of specified parameters for each member of the executive management's area of responsibility. Both financial and non-financial parameters are used.

Severance payment:

The CEO and CFO have agreements covering severance payments. In the event of resignation at the request of the board of directors, they have the right to a severance payment equivalent to two years gross of fixed salary.

Information about loans to employees 2012:

Amounts in NOK 1 000	Loan at 31.12.12	Maturity	Interest rate
Loan to Erik Karlstrøm	1 156	10 years	2%
Loans to other employees	5 999	20 years	2%*
Total	7 154		

** NOK 0.45 million of the loans to other employees have an interest rate of 6%, while remaining loans have an interest rate of 2%.*

The loans are provided for the purpose of house purchasing and private estates are pledged as security. If employment is terminated, employees must settle the remaining outstanding loan amount.

Remuneration to directors and management in 2011:

Amounts in NOK 1 000	Directors' fees	Salaries	Bonus	Pension	Other*
Management					
Erik Karlstrøm (CEO)		2 690	663	3 850	94
Knut Sæberg (CFO)		2 091	432	362	13
Erik Henriksen (exploration manager)**		1 265	0	207	9
Astrid M Tugwell (development manager)		1 372	275	240	13
Lars Tveter (HSE manager)		1 198	270	456	93
Vigdis Wiik Jakobsen (business development and portfolio manager)		1 553	183	319	16
Marion Høgmo (administration manager)		967	195	137	16
Kristin Ingebrigtsen (strategy and public relations manager)**		817	124	101	8
Board of directors					
Johan P Barlindhaug (chair)	360				
Brynjar K Forbergskog (director)	0				
Ole Njærheim (director)	120				
Guri Helene Ingebrigtsen (director)	120				
Leif W Finsveen (director)	120				
Harriet Hagan (director)	0				
Hans Kristian Rød (director)	120				
Heidi Marie Petersen (director)	120				
Jørn Olsen (director)	60				
Kristin Ingebrigtsen (former director)	120				
Arnulf Østensen (former director)	120				
Total	1 260	11 953	2 143	5 672	265

** Other includes benefits from free car, loan interest rate benefit, allowances to cover telephone and internet, training fee, group life insurance and travel insurance. ** Erik Henriksen employed from 1 May 2011 and Kristin Ingebrigtsen employed from 1 June.2011*

Information about loans to employees 2011:

Amounts in NOK 1 000	Loan at 31.12.11	Maturity	Interest rate
Loan to Erik Karlstrøm	1 353	10 years	2%
Loans to other employees	9 504	20 years	2%*
Total	10 857		

** NOK 0.45 million of the loans to other employees have an interest rate of 6%, while remaining loans have an interest rate of 2%.*

The loans are provided for the purpose of house purchasing and private estates are pledged as security. If employment is terminated, employees must settle the remaining outstanding loan amount.

The board of directors' declaration regarding determination of salary and other remuneration to management employees

The board of directors shall prepare a declaration in accordance with the Norwegian Public Limited Liability Companies Act (Allmennaksjeloven) §6-16a. In accordance with the Norwegian Accounting Act §7-31b, the content of this declaration is presented.

The main principle for the company is that renumeration to management is competitive in a way that the company is able to attract and retain competent management employees. The remuneration shall be competitive and based on individual criteria such as experience, area of responsibility and achievement of results. The remuneration system for management employees shall further encourage a strong and lasting profit oriented organisation which contributes to increasing the shareholder value.

Total remuneration to management employees includes:
(1) Market-based fixed salary.
(2) Bonus. The management is included in the company's general employee bonus programme. The bonus is limited to 1/3 of fixed salary, with distribution 50/50 in cash and bonus shares, where the cash bonus is earned first. The bonus is linked to the achievement of specified parameters for each member of the executive management's area of responsibility. Both financial and non-financial parameters are used.
(3) Pension and insurance. The management is included in the company's general pension and insurance scheme. The CEO has in addition an early retirement pension scheme from the age of 62 until the ordinary retirement age (67 years), where the pension is 67% of final annual salary.
(4) Severance payment. The CEO and CFO have agreements covering severance payments. In the event of resignation at the request of the board of directors, they have the right to a severance payment equivalent to two years of gross fixed salary.
(5) Other benefits such as free car, loan interest rate benefit, and regular allowances to cover telephone, internet, training fee and travel insurance.

Note 6

Other operating expenses and remuneration to auditor

Other operating expenses include:

Amounts in NOK 1 000	2012	2011
Travelling expenses	4 739	6 863
Lease expenses (see note 20)	4 507	6 189
Consultant and other fees	10 161	6 404
Advertising costs	3 182	4 103
Other administrative expenses	18 486	16 446
Total	41 074	40 004

Remuneration to auditor is allocated as specified below:

Amounts in NOK 1 000	2012	2011
Audit	461	432
Attestations	34	31
Accounting assistance	5	5
Due diligence, share issues and prospectus	67	0
Other assistance	33	10
Total, excl VAT	600	477

Note 7

Other non-current receivables

Other non-current receivables include:

Amounts in NOK 1 000	2012	2011
Loans to employees (note 5)	7 154	10 857
Deposit	446	446
Pension assets (note 21)	11 999	8 462
Total	19 599	19 765

Note 8

Prepayments and other receivables

Prepayments and other receivables include:

Amounts in NOK 1 000	**2012**	**2011**
Prepaid expenses	1 539	2 563
VAT receivable	3 327	3 380
Receivables, joint ventures	30 703	48 806
Other items	69	105
Total	35 637	54 854

Note 9

Cash and cash equivalents

Cash and cash equivalents:

Amounts in NOK 1 000	**2012**	**2011**
Bank deposits	28 496	34 206
Total cash and cash equivalents	28 496	34 206
Of this:		
Employees' tax deduction (restricted cash)	2 845	3 124

Note 10

Share capital and shareholder information

	2012	**2011**
Number of outstanding shares at 1 January	25 224 393	25 149 736
New shares issued during the year:		
Issued in exchange for cash	15 589 055	74 657
Number of outstanding shares at 31 December	40 813 448	25 224 393
Nominal value NOK per share at 31 December	1.00	1.00
Share capital NOK at 31 December	40 813 448	25 224 393

North Energy has one share class with equal rights for all shares. No dividends have been proposed or paid in 2011 or 2012.

Number of shares owned by management and directors at 31 December 2012:

Management		
Erik Karlstrøm (CEO). directly and through Ninerik AS	642 980	1.58%
Knut Sæberg (CFO)	32 073	0.08%
Astrid M Tugwell (vice president development)	49 427	0.12%
Vigdis Wiik Jakobsen (vice president for business development and portfolio)	41 000	0.10%
Marion Høgmo (vice president administration and HR)	8 056	0.02%
Board of directors		
Johan P Barlindhaug (chair). through JPB AS	2 783 423	6.82%
Harriet Hagan (director)	25 000	0.06%
Jørn Olsen (director)	4 497	0.01%
Total	3 586 456	8.79%

Number of shares owned by management and directors at 31 December 2011:

Management		
Erik Karlstrøm (CEO). directly and through Ninerik AS	642 980	2.55%
Knut Sæberg (CFO)	22 073	0.09%
Astrid M Tugwell (development manager)	39 427	0.16%
Lars Tveter (HSE manager)	41 908	0.17%
Vigdis Wiik Jakobsen (business development and portfolio manager)	41 000	0.16%
Marion Høgmo (administration manager)	8 056	0.03%
Board of directors		
Johan P Barlindhaug (chair). through JPB AS	1 370 000	5.43%
Harriet Hagan (director)	25 000	0.10%
Jørn Olsen (director)	4 497	0.02%
Total	2 194 941	8.70%

Note 10

Share capital and shareholder information (continued)

Main shareholders as of 31 December 2012:

Shareholder	Number of shares	% share
DEUTSCHE BANK AG	2 964 489	7.26%
JPB AS	2 783 423	6.82%
SKS EIENDOM AS	2 374 920	5.82%
EUROCLEAR BANK	2 361 900	5.79%
ORIGO KAPITAL AS	1 343 569	3.29%
BANK OF NEW YORK - ELLIOTT	1 255 000	3.07%
HSBC BANK	1 100 000	2.70%
DELPHI NORGE	1 034 000	2.53%
THE NORTHERN TRUST	1 031 270	2.53%
IKM INDUSTRI-VEST	1 008 648	2.47%
OM HOLDING AS	969 819	2.38%
ONSHORE GROUP NORDLAND	933 340	2.29%
HAMNINBERG HOLDING	815 605	2.00%
CACEIS BANK	796 571	1.95%
BANK OF NEW YORK - LIVERPOOL	780 000	1.91%
KAPNORD FOND AS	727 895	1.78%
STATE STREET BANK	722 917	1.77%
KLP AKSJE NORGE	686 080	1.68%
NINERIK AS	629 543	1.54%
KOMMUNAL LANDSPENSJON	510 500	1.25%
Total 20 largest shareholders	24 829 489	60.84%
Other shareholders	15 983 959	39.16%
Total	40 813 448	100.00%

Main shareholders as of 31 December 2011:

Shareholder	Number of shares	% share
EUROCLEAR BANK S.A./N.V. ('BA')	2 361 900	9.36%
SKS EIENDOM AS	1 824 920	7.23%
JPB AS	1 370 000	5.43%
ORIGO KAPITAL AS	1 343 569	5.33%
OM HOLDING AS	933 808	3.70%
ONSHORE GROUP NORDLAND AS	933 340	3.70%
BANK OF NEW YORK MELLON SA/NV	753 779	2.99%
KAPNORD FOND AS	640 000	2.54%
THE NORTHERN TRUST CO.	566 420	2.25%
IKM INDUSTRI-INVEST AS	545 648	2.16%
NINERIK AS	516 735	2.05%
HSBC BANK PLC	500 000	1.98%
GOLDMAN SACHS & CO - EQUITY	478 948	1.90%
CACEIS BANK FRANCE	478 350	1.90%
THE NORTHERN TRUST CO	438 717	1.74%
SVITHUN FINANS AS	431 958	1.71%
LEONHARD NILSEN & SØNNER AS	431 210	1.71%
STATE STREET BANK & TRUST CO.	426 127	1.69%
ALTA KRAFTLAG A/L	400 230	1.59%
HELGELAND VEKST A.S	315 000	1.25%
Total 20 largest shareholders	15 690 659	62.20%
Other shareholders	9 533 734	37.80%
Total	25 224 393	100.00%

Note 11

Current borrowings

Current borrowings include:

Amounts in NOK 1 000	2012	2011
Revolving credit facility (exploration loan), funds drawn*	197 082	352 173
Revolving credit facility (exploration loan), transaction costs	(9 757)	(3 825)
Loan from Lime Petroleum, incl accrued interest**	28 227	0
Balance 31 December	215 552	348 348

* Maturity for funds drawn is in December 2013. In February 2012, the group expanded its exploration loan facility from NOK 760 million to NOK 950 million. In December 2012, the group entered into an agreement to renew its exploration loan facility for the period 2013-2015. Interest rate is NIBOR + 2.25%.

The loan is secured by a pledge in tax receivables from refund pursuant to the Norwegian Petroleum Tax Act and the interests in production licences which the company at any time has.

** Loan from Lime Petroleum of NOK 27.5 million plus incurred interest. The interest rate is four per cent. This loan agreement with Lime Petroleum has been entered into in connection with the sale and purchase agreement with Lime Petroleum, whereby North Energy tranfers parts of its interests in selected licences to Lime Petroleum. See also note 25.

Note 12

Other current liabilities

Amounts in NOK 1 000	2012	2011
Public duties payable	3 421	3 802
Accruals, joint ventures	39 472	29 828
Holiday pay and bonus payable	17 323	12 262
Other accruals for incurred costs	18 487	10 050
Total	78 703	55 943

Note 13
Earnings per share

	2012	2011
Loss for the year (NOK 1 000)	(111 519)	(110 556)
Weighted average number of shares outstanding	37 935 572	25 187 576
Earnings per share (NOK per share)		
- Basic	(2.94)	(4.39)
- Diluted	(2.94)	(4.39)

Note 14
Related parties

The company's transactions with related parties:
Amounts in NOK 1 000

(a) Purchases of services

Purchase of services from	Description of services	2012	2011
Origo Økonomipartner AS (100% owned by Origo Nord AS, the management company for shareholder Origo Kapital AS)	Accounting services	199	155
Origo Nord AS (management company for shareholder Origo Kapital AS)	Information, administrative and consulting services	40	27

Services are purchased on market terms.

(b) Remuneration to management and directors

Refer to note 5.

(c) Loans to related parties

See note 5 for information about loans to employees.

(d) Overview of subsidiaries

The following subsidiaries are included in the consolidated financial statements:

Company	Acquisition date	Location	Equity and voting share
4Sea Energy AS	11.02.2010	Norway	100%

Note 15
Tax

Specification of income tax:

Amounts in NOK 1 000	2012	2011
Calculated refund tax value of exploration costs this year	490 114	553 550
Of this, refund not recognised in income statement (acquisition of licences recognised net of tax)	(62)	(29 902)
Correction refund previous years	(261)	(6 281)
Tax receivable, tax value offshore losses	15 130	0
Change deferred tax in balance	90 396	(156 434)
Of this, deferred tax asset not recognised in income statement (acquisition of licences recognised net of tax)	(1)	(0)
Of this, deferred tax not recognised in income statement (sale of licences recognised net of tax)	(87 806)	0
Of this, deferred tax asset related to items in comprehensive income recognised in comprehensive income	6 508	291
Of this, deferred tax asset related to equity transactions recognised directly in equity	(2 355)	0
Total income tax credit	**511 664**	**361 223**

Specification of tax receivable refund tax value exploration expenses:

Amounts in NOK 1 000	31.12.12	31.12.11
Calculated refund tax value of exploration costs this year	490 114	553 550
Correction refund previous years, not yet assessed	(233)	0
Total tax receivable refund tax value exploration expenses	**489 881**	**553 550**

Oil-exploration companies operating on the Norwegian continental shelf may claim a 78% refund of their exploration costs limited to taxable losses for the year. The refund is paid in December the following year.

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

Amounts in NOK 1 000	31.12.12	31.12.11
Property, plant and equipment	452	4 310
Capitalised exploration and licence costs	268 820	361 818
Pensions	(1 255)	(10 304)
Current borrowings	9 757	3 825
Tax losses carried forward, onshore	(34 991)	(35 645)
Tax losses carried forward, offshore only 28% basis	(84 136)	(49 968)
Tax losses carried forward, offshore only 50% basis	(904)	(887)
Tax losses carried forward, offshore both 28% and 50% basis	(97 511)	(95 439)
Total basis for deferred tax	**60 233**	**177 710**
Deferred tax liability (-) / tax asset (+)	(101 991)	(179 753)
Uncapitalised deferred tax asset (valuation allowance)*	(9 838)	(22 472)
Deferred tax liability (-) / tax asset (+) in balance	**(111 829)**	**(202 225)**

** Uncapitalised deferred tax asset relates mainly to onshore tax loss carried forward in subsidiary 4Sea Energy AS.*

Note 15
Tax (continued)

Specification of offshore tax losses at cessation of offshore activities subject to additional tax and tax receivable from tax value of the losses

Amounts in NOK 1 000	31.12.12	31.12.11
Tax losses carried forward, offshore only 28% basis	(3 664)	0
Tax losses carried forward, offshore only 50% basis	0	0
Tax losses carried forward, offshore both 28% and 50% basis	(18 082)	0
Total basis tax receivable	(21 746)	0
Tax receivable from tax value of offshore losses in the balance sheet	15 130	0

Owing to the transaction in which the subsidiary 4Sea Energy AS sells all its licences to parent company North Energy ASA, the subsidiary's offshore activities subject to additional tax ceased with effect at 31.12.2012, and the company will claim to be paid the tax value of the offshore tax losses carried forward at 31.12.2012. See section 3 c, sub-section 4 of the Petroleum Taxation Act. The amount is expected to be paid to the company in December 2013.

Reconciliation of effective tax rate:

Amounts in NOK 1 000	31.12.12	31.12.11
Profit before tax	(623 183)	(471 780)
Expected income tax credit 78%	486 083	367 988
Adjusted for tax effects (28% - 78%) of the following items:		
Permanent differences	22 277	(2 504)
Correction previous years	(812)	(2 046)
Interest on tax losses carried forward offshore	1 684	1 277
Finance items	(10 130)	(6 143)
Change in valuation allowance for deferred tax assets and other items	12 562	2 652
Total income tax credit	511 664	361 223

Note 16
Property, plant and equipment

Amounts in NOK 1 000	Equipment, office machines, etc
2012	
Cost:	
At 1.1.2012	38 133
Additions	3 865
Disposals	0
At 31.12.2012	**41 998**
Depreciation and impairment:	
At 1.1.2012	(16 061)
Depreciation this year	(10 183)
Impairment this year	0
Disposals	0
At 31.12.2012	**(26 244)**
Carrying amount at 31.12.2012	**15 754**
2011	
Cost:	
At 1.1.2011	26 250
Additions	13 212
Disposals	(1 329)
At 31.12.2011	**38 133**
Depreciation and impairment:	
At 1.1.2011	(10 082)
Depreciation this year	(7 179)
Impairment this year	0
Disposals	1 200
At 31.12.2011	**(16 061)**
Carrying amount at 31.12.2011	**22 072**
Economic life	3-10 years
Depreciation method	linear

Note 17
Capitalised and expensed exploration and licence costs

(a) Capitalised exploration and licence costs

Amounts in NOK 1 000	Capitalised exploration and licence costs
2012	
Cost:	
At 1.1.2012	376 719
Additions - capitalised exploration and licence costs*	337 696
Disposals, impairment**	(332 394)
Disposals, sale**	(113 182)
At 31.12.2012	**268 839**
Amortisation and impairment:	
At 1.1.2012	0
Amortisation this year	0
Impairment this year**	(332 394)
Disposals**	332 394
At 31.12.2012	**0**
Carrying amount at 31.12.2012	**268 839**

* Additions relate mainly to drilling of exploration wells in PL 450 (Storebjørn), PL 385 (Jette) and PL498 (Skagen).

** Disposals relate mainly to impairment of capitalised expenses in PL 450 (Storebjørn), PL 385 (Jette) and PL498 (Skagen) owing to dry well results, and the sale of PL 433 (Fogelberg).

Note 17
(continued)

(a) Capitalised exploration and licence costs

Amounts in NOK 1 000	Capitalised exploration and licence costs
2011	
Cost:	
At 1.1.2011	128 214
Additions - capitalised exploration and licence costs*	307 538
Disposals**	(59 033)
At 31.12.2011	376 719
Amortisation and impairment:	
At 1.1.2011	0
Amortisation this year	0
Impairment this year**	(59 033)
Disposals**	59 033
At 31.12.2011	0
Carrying amount at 31.12.2011	376 719

* Additions relate mainly to drilling of exploration wells in PL 535 (Norvarg), PL 530 (Heilo) and PL 518 (Zapffe), and the acquisition cost of PL 450 (Storebjørn) recognised net of tax.

** Disposals relate to impairment of capitalised expenses in PL 530 (Heilo) and PL 518 (Zapffe) owing to dry well result.

Depreciation method: capitalised exploration and licence costs will be depreciated using the unit-of-production method, if and when reserves are produced.

(b) Expensed exploration and licence costs

Specification of expensed exploration and licence costs:

Amounts in NOK 1 000	2012	2011
Share of exploration expenses from participation in licences, incl seismic, G&G, dry wells, carry	93 906	219 841
Impairment of capitalised exploration expenses	332 394	59 033
Seismic and other exploration costs	113 843	61 281
Total exploration and licence costs	540 143	340 154

Note 18
Financial items

Finance income and costs

Amounts in NOK 1 000	2012	2011
Interest income bank deposits	1 309	1 006
Interest income on tax refund	9 396	6 372
Other interest income	241	293
Foreign exchange gain	7 389	8 845
Finance income, joint ventures	400	2 084
Other finance income	1	2
Total finance income	18 735	18 602

Finance costs:

Amounts in NOK 1 000	2012	2011
Interest expenses and transaction costs on current borrowings	33 383	20 068
Foreign exchange loss	6 655	12 009
Other finance costs	636	18
Total finance costs	40 674	32 095

Note 19

Financial instruments

(a) Categories of financial instruments

at 31 December 2012:

Amounts in NOK 1 000	Loans and receivables
Assets:	
Other non-current receivables (see note 7) [1]	7 600
Other current receivables (see note 8)	30 771
Cash and cash equivalents	28 496
Total	66 867

Amounts in NOK 1 000	Financial liabilities measured at amortised cost
Liabilities:	
Trade creditors	44 070
Other current liabilities (see note 12) [2]	56 795
Current borrowings	215 552
Total	316 417

at 31 December 2011:

Amounts in NOK 1 000	Loans and receivables
Assets:	
Other non-current receivables (see note 7) [1]	11 302
Other current receivables (see note 8)	48 912
Cash and cash equivalents	34 206
Total	94 420

Amounts in NOK 1 000	Financial liabilities measured at amortised cost
Liabilities:	
Trade creditors	66 108
Other current liabilities (see note 12) [2]	42 090
Current borrowings	348 348
Total	456 546

[1] Pension assets are excluded since they are not defined as financial instruments.
[2] Public duties payable and accruals for incurred costs are excluded since they are not defined as financial instruments.

(b) Fair value of financial instruments

Fair value other non-current receivables:
The fair value of other non-current receivables is calculated by discounting cash flows with a rate equal to an alternative rate of 5.0% (2011: 5.0%). The discount rate corresponds to 10-year fixed-rate loans with the addition of relevant credit rating.

Amounts in NOK 1 000	**2012**	**2011**
Other non-current receivables (see note 7)	5 955	8 788

The carrying amount of cash and cash equivalents and other current receivables is approximately equal to fair value, since these instruments have a short term to maturity. Similarly, the carrying amount of trade creditors, other current liabilities and current borrowings is approximately equal to fair value, since the effect of discounting is not significant.

(c) Creditworthiness of financial assets

The group does not have a system that separates receivables and loans by counterparty credit rating. Non-current receivables are mainly loans to employees. Loans to employees are repaid as agreed and have not been impaired in 2011 or 2012. Cash and cash equivalents are receivables from banks, and Standard & Poor's credit rating of these banks is presented below:

	2012	**2011**
Bank deposits:	28 496	34 206

Amounts in NOK 1 000	**2012**	**2011**
No external credit rating	0	0
A	28 496	34 206
AA	0	0
Total	**28 496**	**34 206**

(d) Financial risk factors

See note 3 for financial risk factors and risk management, sensitivity analysis and capital management.

Note 20
Leases

North Energy has no finance leases.

North Energy has entered into operating leases for office premises, cars, machinery and office furniture. The leases do not impose any restrictions on the company's dividend policy or financing opportunities.

Lease costs consist of the following:

Amounts in NOK 1 000	2012	2011
Lease office premises (inclusive joint costs)	5 141	6 169
Lease machinery and office furniture	443	663
Lease cars	356	650
Sublease office premises	(1 434)	(1 294)
Total lease costs	4 507	6 189

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

Amounts in NOK 1 000	2012	2011
Within 1 year - leases	3 894	4 124
Within 1 year - subleases	(1 130)	(523)
1 to 5 years - leases	10 984	12 132
1 to 5 years - subleases	0	0
After 5 years	10 984	13 730
Total net lease	24 731	29 461

Note 21
Pension

Actuarial assumptions:

	2012	2011
Discount rate	3.90%	3.60%
Expected rate of return on plan assets	4.10%	5.00%
Expected annual salary increases	3.50%	4.00%
Expected annual adjustment of pension benefits	3.25%	3.75%
Expected rate of adjustment to NI base rate (G)	3.25%	3.75%
Mortality assumptions are based on mortality table	K2005	K2005
Disability assumptions are based on disability table	IR02	IR02

Pension expense recognised in income statement:

Amounts in NOK 1 000	2012	2011
Current service costs	11 534	11 505
Interest costs	793	920
Expected return on plan assets	(430)	(503)
Social security costs	633	646
Gain from take out of members	(3 668)	0
Total pension expense included in payroll and related cost	8 862	12 569

Specification of net pension liability:

Amounts in NOK 1 000	2012	2011
Present value of funded obligations at 31.12	31 510	36 132
Estimated fair value of plan assets at 31.12	30 255	25 829
Net pension liability	1 255	10 304

Classification of net pension liability in the balance sheet:

Amounts in NOK 1 000	2012	2011
Other non-current receivables (note 7)	11 999	8 462
Pension liabilities	13 254	18 766
Net pension liability	1 255	10 304

One individual pension plan was over funded by NOK 8 462 000 at the end of 2012 (NOK 8 462 000 at the end of 2011). The over funding will be used to cover future liabilities, but not liabilities in other pension plans that the company has. The amount is therefore classified whith other non-current receivables.

Movement in the liability for defined benefit obligations during the year:

Amounts in NOK 1 000	2012	2011
Defined benefit obligations at 1 January	36 132	26 295
Current service costs	11 534	11 505
Interest costs	793	920
Take out of members	(7 689)	0
Actuarial loss/(gain)	(9 260)	(2 588)
Liability for defined benefit obligations at 31 December	31 510	36 132

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

Amounts in NOK 1 000	2012	2011
Fair value of plan assets at 1 January	25 829	16 543
Expected return on plan assets	430	503
Actuarial gain/(loss)	(917)	(2 215)
Take out of members	(3 909)	0
Employer contributions	8 822	10 998
Fair value of plan assets at 31 December	30 255	25 829

Plan assets are comprised as follows	2012	2011
Shares	9.2%	18.7%
Currunt bonds	15.2%	15.4%
Money market	22.3%	13.6%
Non-current bonds	35.0%	33.2%
Property	17.8%	17.6%
Other	0.4%	1.5%
Total	100.0%	100.0%

	2012	2011
Actual return on plan assets	5.10%	3.50%

	2012	2011
Expected contributions to funded plans next year	5 880	8 594

The pension arrangements fulfil the requirements of the Norwegian Act on mandatory occupational pensions.

Note 21
Pension (continued)

Historical information:

Amounts in NOK 1 000	2012	2011	2010	2009	2008
Present value of funded obligations at 31.12	31 510	36 132	26 295	13 699	5 963
Estimated fair value of plan assets at 31.12	30 255	25 829	16 543	10 961	4 320
Net pension liability	**1 255**	**10 304**	**9 752**	**2 738**	**1 643**
Actuarial losses (-)/gains experienced with the pension obligation	9 260	2 588	(3 075)	1 254	(2 495)
Actuarial losses (-)/gains experienced with the plan assets	(917)	(2 215)	(1 161)	(1 088)	(206)
Net actuarial losses (-)/gains	**8 343**	**373**	**(4 236)**	**166**	**(2 701)**
Recognised in comprehensive income (net of tax)	1 836	82	(932)	166	(2 701)
Recognised in comprehensive income (net of tax), accumulated	(1 549)	(3 385)	(3 467)	(2 535)	(2 701)

Note 22
Gain from sales of licences

The group's 12 per cent interest in PL 433 Fogelberg has been sold for a consideration of NOK 70 million in addition to the pro and contra settlement. The transaction resulted in a net gain of NOK 46.9 million.

Note 23
Contingent liabilities

North Energy has not been involved in any legal or financial disputes in 2012 or 2011 where an adverse outcome is considered more likely than remote.

Note 24

Shares in licences and obligations

Shares in licences at 31 December 2012:

Licence	Share
PL 299	20%
PL 370/370B	10%
PL 385	15%
PL 450	15%
PL 498	25%
PL 503/503B	25%
PL 510 *	100%
PL 518/518B	30%
PL 526	67%
PL 530	20%
PL 535	20%
PL 562	10%
PL 564	20%
PL 587	40%
PL 590	40%
PL 594	20%
PL 595	40%
PL 601	20%
PL 616	20%
PL 656	10%

* Share in PL 510 was reduced to 20% in January 2013

Shares in licences at 31 December 2011:

Licence	Share
PL 341	11%
PL 370/370B	10%
PL 385	35%
PL 433	12%
PL 450	15%
PL 498	25%
PL 503/503B	25%
PL 510	20%
PL 518/518B	30%
PL 526	40%
PL 530	20%
PL 535	20%
PL 536	20%
PL 562	10%
PL 564	20%
PL 587	40%
PL 590	40%
PL 594	20%
PL 595	40%
PL 601	20%

Obligations at 31 December 2012:

Licence	Share	Obligation	Expected time
PL 299	20%	One firm well	Well Q2-2013
PL 535	20%	One firm well (appraisal)	Well Q2-2013

Obligations at 31 December 2011:

Licence	Share	Obligation	Expected time
PL 370	10%	One firm well.	Well Q2-2012
PL 385	35%	One firm well.	Well Q3-2012
PL 450	15%	One firm well.	Well Q1-2012
PL 498	25%	One firm well.	Well Q3-2012

Note 25

Events after the balance sheet date

In January 2013, North Energy was awarded one new licence in the 2012 APA (15% interest in PL 693).

In February 2013, Lime Petroleum was prequalified as a licensee on the Norwegian continental shelf, and North Energy and Lime Petroleum have started work related to completion of the sale and purchase agreement whereby North Energy transfers parts of its interests in selected licences to Lime Petroleum. As compensation for the shares in these licences, North has already received NOK 27.5 million from Lime Petroleum as a loan, pending final completion of the agreement. The final consideration and which interests in licences should be included in the agreement are not agreed at present.

In March 2013, North Energy entered into a four-year collaboration agreement with TGS-Nopec Geophysical Company ASA (TGS) concerning the purchase of seismic data and services. This represents a natural progression from an earlier collaboration agreement with Rex Oil & Gas (Rex) on the purchase of virtual drilling (VD) services for prospect evaluation, which calls for access to substantial volumes of seismic data.

The collaboration with TGS includes a credit facility of up to NOK 200 million for the purchase of seismic data and services. These purchases will be made in line with North Energy's requirements for seismic input in connection with work on applications in licencing rounds and the like. The conditions of the loan are eight per cent annual interest and a four-year term, during which repayments may be made but are not mandatory. TGS has an annual right but no obligation to convert the net amount of the loan which has accumulated over a 12-month period to shares in North Energy at a price of NOK 8.00 per share.

In parallel with the agreement, the collaboration with Rex is being expanded to include a credit facility of up to NOK 100 million over four years for the purchase of VD services. Interest and conversion terms correspond to those in the TGS agreement. The bulk of VD service purchases will be based on North Energy's requirements.

The convertible loans must be approved by the extraordinary general meeting on 22 March 2013.

Financial statements

North Energy ASA

Income statement

(NOK 1 000)	Note	2012	2011
Gain from sales of licences	23	46 931	0
Payroll and related expenses	5	(56 310)	(70 057)
Depreciation and amortisation	16	(10 183)	(7 182)
Exploration expenses	17	(473 904)	(316 643)
Other operating expenses	6	(42 525)	(39 128)
Operating loss		**(535 991)**	**(433 010)**
Financial income	18	18 243	18 351
Financial expenses	18	(40 834)	(33 430)
Net financial items		**(22 591)**	**(15 079)**
Loss before income tax		**(558 582)**	**(448 089)**
Income tax credit	15	422 248	338 841
Loss for the year		**(136 334)**	**(109 248)**

Statement of comprehensive income

(NOK 1 000)	Note	2012	2011
Loss for the year		**(136 334)**	**(109 248)**
Other comprehensive income, net of tax:			
Actuarial gain/(loss) pension	21	1 836	82
Total other comprehensive income, net of tax		**1 836**	**82**

Balance sheet

(NOK 1 000)	Note	31.12.12	31.12.11
ASSETS			
Non-current assets			
Property, plant and equipment	16	15 754	22 072
Capitalised exploration and licence costs	17	268 839	367 657
Investment in subsidiaries	13	50 000	50 000
Other receivables	7	19 599	19 765
Total non-current assets		**354 192**	**459 494**
Current assets			
Prepayments and other receivables	8	34 898	51 199
Receivable from subsidiary		111	404
Tax receivable refund tax value exploration expenses	15	415 595	531 168
Cash and cash equivalents	9	27 728	34 054
Total current assets		**478 333**	**616 824**
Total assets		**832 525**	**1 076 318**

(NOK 1 000)	Note	31.12.12	31.12.11
EQUITY AND LIABILITIES			
Equity			
Share capital	10	40 813	25 224
Share premium		740 387	606 141
Other paid-in capital		29 570	29 570
Retained earnings		(423 983)	(289 485)
Total equity		**386 788**	**371 451**
Liabilities			
Non-current liabilities			
Pension liabilities	21	13 254	18 766
Deferred tax	15	111 829	202 225
Total non-current liabilities		**125 083**	**220 991**
Current liabilities			
Current borrowings	11	169 313	348 348
Loan from subsidiary	22	29 359	17 984
Trade creditors		43 585	65 002
Other current liabilities	12	78 396	52 542
Total current liabilities		**320 654**	**483 875**
Total liabilities		**445 737**	**704 867**
Total equity and liabilities		**832 525**	**1 076 318**

Alta, 19 March 2013

Johan Petter Barlindhaug
Chair

Leif W Finsveen
Director

Harriet Hagan
Director

Heidi M Petersen
Director

Ola Krohn-Fagervoll
Director

Ane M S Rasmussen
Director

Erik Karlstrøm
CEO

Statement of changes in equity

(NOK 1 000)	Note	Share capital	Share premium	Other paid-in capital	Retained earnings	Total equity
Equity at 1 January 2011		25 150	606 141	29 570	(180 319)	480 542
Transactions with owners:						
Share issues		75	0	0	0	75
Comprehensive income:						
Total compehensive income for 2011		0	0	0	(109 166)	(109 166)
Equity at 31 December 2011		**25 224**	**606 141**	**29 570**	**(289 485)**	**371 451**
Equity at 1 January 2012		25 224	606 141	29 570	(289 485)	371 451
Transactions with owners:						
Share issues		15 589	140 301	0	0	155 891
Share issue expenses (net after tax)		0	(6 056)	0	0	(6 056)
Comprehensive income:						
Total compehensive income for 2012		0	0	0	(134 498)	(134 498)
Equity at 31 December 2012		**40 813**	**740 387**	**29 570**	**(423 983)**	**386 788**

Cash flow statement

(NOK 1 000)	Note	2012	2011
Cash flow from operating activities			
Loss before income tax		(558 582)	(448 089)
Adjustments:			
Tax refunded	15	531 141	336 309
Deprecitiation	16	10 183	7 182
Gain from sales of licences	23	(46 931)	0
Profit/(loss) on disposal of property, plant and equipment		0	(37)
Impairment of exploration and licence costs	17	271 995	59 033
Pensions		(706)	925
Transaction costs and interest on borrowings recognised in P&L	18	33 549	21 402
Changes in trade creditors		(21 416)	18 802
Changes in other accruals		47 204	(9 692)
Net cash flow from operating activities		**266 436**	**(14 165)**
Cash flow from investing activities			
Purchase of property, plant and equipment	16	(3 865)	(13 087)
Proceeds from sales of licences	23	73 237	0
Proceeds from sale of property, plant and equipment		0	37
Capitalised exploration and licence costs	15,17	(249 421)	(334 226)
Proceeds from payments of other non-current receivables	7	3 703	631
Net cash flow from investing activities		**(176 346)**	**(346 644)**
Cash flow from financing activities			
Funds drawn current borrowings	11,22	504 101	743 000
Repayments of current borrowings	11,22	(709 329)	(374 177)
Transaction costs and interest on borrowings paid	11,18	(38 667)	(23 400)
Proceeds from share issues		147 480	75
Net cash flow from financing activities		**(96 415)**	**345 498**
Net change in cash and cash equivalents		**(6 325)**	**(15 312)**
Cash and cash equivilents at 1 January	9	34 054	49 366
Cash and cash equivilents at 31 December	**9**	**27 728**	**34 054**

Notes

North Energy ASA

Note 1

General information

North Energy ASA is a public limited company incorporated and domiciled in Norway, with its main office in Alta. The company's shares were listed on Oslo Axess on 5 February 2010. The company's only business segment is exploration for oil and gas on the Norwegian continental shelf.

The financial statements were approved by the board of directors and the CEO at 19 March 2013.

Note 2

Summary of significant accounting policies

2.1 Basis for preparation

The financial statements of North Energy ASA have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and in accordance with the additional requirements pursuant to the Norwegian Accounting Act.

2.2 Accounting policies

Accounting policies described in the consolidated financial statements of North Energy group also apply for North Energy ASA. See the description of accounting policies in note 2 in the consolidated financial statements of the North Energy group. Investment in subsidiaries is valued in the financial statements of North Energy ASA (parent company) at cost, less any necessary impairment. Impairment to recoverable amount will be carried out if impairment indicators are present and the recoverable amount is less than book value. The recoverable amount is the higher of the asset's fair value less costs required to sell the asset and its value in use. Impairments are reversed when the cause and basis of the initial impairment are no longer present.

Note 3

Financial risk management

See note 3 in the consolidated financial statements.

Note 4

Critical accounting estimates and judgements

See note 4 in the consolidated financial statements.

Note 5

Payroll and related costs, remuneration to directors and management

Beløp i NOK 1 000	2012	2011
Salaries	40 274	49 814
Payroll tax	2 978	3 396
Pension costs	8 862	12 569
Other benefits	4 197	4 279
Total	56 310	70 057
Average number of employees	41.1	46.1

Remuneration to directors and management:

See note 5 in the consolidated financial statements.

Information about loans to employees, incl interest benefit:

See note 5 in the consolidated financial statements.

The board of directors' declaration regarding determination of salary and other remuneration to management employees

The board of directors shall prepare a declaration in accordance with the Norwegian Public Limited Liability Companies Act (Allmennaksjeloven) §6-16a. In accordance with the Norwegian Accounting Act §7-31b, the content of this declaration is presented.

The main principle for the company is that renumeration to management is competitive in a way that the company is able to attract and retain competent management employees. The remuneration shall be competitive and based on individual criteria such as experience, area of responsibility and achievement of results. The remuneration system for management employees shall further encourage a strong and lasting profit oriented organisation which contributes to increasing the shareholder value.
Total remuneration to management employees includes:
(1) Market-based fixed salary.
(2) Bonus. The management is included in the company's general employee bonus programme. The bonus is limited to 1/3 of fixed salary, with distribution 50/50 in cash and bonus shares, where the cash bonus is earned first. The bonus is linked to the achievement of specified parameters for each member of the executive management's area of responsibility. Both financial and non-financial parameters are used.

(3) Pension and insurance. The management is included in the company's general pension and insurance scheme. The CEO has in addition an early retirement pension scheme from the age of 62 until the ordinary retirement age (67 years), where the pension is 67% of final annual salary.
(4) Severance payment. The CEO and CFO have agreements covering severance payments. In the event of resignation at the request of the board of directors, they have the right to a severance payment equivalent with to two years of gross fixed salary.
(5) Other benefits such as free car, loan interest rate benefit, and regular allowances to cover telephone, internet, training fee and travel insurance.

Note 6

Other operating expenses and remuneration to auditor

Other operating expenses include:

Amounts in NOK 1 000	2012	2011
Travelling expenses	4 739	6 863
Lease expenses	6 407	5 910
Consultant's and other fees	9 965	6 089
Advertising costs	3 182	4 103
Other administrative expenses	18 233	16 163
Total	42 525	39 128

Remuneration to auditor is allocated as specified below:

Amounts in NOK 1 000	2012	2011
Audit	435	324
Attestations	34	31
Accounting assistance	5	5
Due diligence, share issues and prospectus	67	0
Other assistance	33	10
Total, excl VAT	574	369

Note 7

Other non-current receivables

Other non-current receivables include:

Amounts in NOK 1 000	2012	2011
Loans to employees (note 5)	7 154	10 857
Deposit	446	446
Pension assets (note 21)	11 999	8 462
Total	19 599	19 765

Note 8

Prepayments and other receivables

Prepayments and other receivables include:

Amounts in NOK 1 000	2012	2011
Prepaid expenses	1 173	2 206
VAT receivable	3 204	3 178
Receivables, joint ventures	30 453	45 712
Other items	69	102
Total	34 898	51 199

Note 9

Cash and cash equivalents

Amounts in NOK 1 000	2012	2011
Bank deposits	27 728	34 054
Total cash and cash equivalents	27 728	34 054
Of this:		
Employees' tax deduction (restricted cash)	2 845	3 124

Note 10

Share capital and shareholder information

See note 10 in the consolidated financial statements.

Note 11

Current borrowings

Current borrowings include:

Amounts in NOK 1 000	2012	2011
Revolving credit facility (exploration loan), funds drawn*	150 844	352 173
Revolving credit facility (exploration loan), transaction costs	(9 757)	(3 825)
Loan from Lime Petroleum, incl incurred interest**	28 227	0
Balance 31 december	169 313	348 348

* Maturity for funds drawn is in December 2013. In February 2012, the group expanded its exploration loan facility from NOK 760 million to NOK 950 million. In December 2012, the group entered into an agreement to renew its exploration loan facility for the period 2013-2015. Interest rate is NIBOR + 2.25%.
The loan is secured by a pledge in tax receivables from refund pursuant to the Norwegian Petroleum Tax Act and the interests in production licences which the company at any time has.

** Loan from Lime Petroleum of NOK 27.5 million plus accrued interest. The interest rate is four per cent. This loan agreement with Lime Petroleum has been entered into in connection with the sale and purchase agreement with Lime Petroleum, whereby North Energy transfers parts of its interests in selected licences to Lime Petroleum. See also note 27.

Note 12

Other current liabilities

Amounts in NOK 1 000	2012	2011
Public duties payable	3 421	3 802
Accruals, joint ventures	39 222	28 427
Holiday pay and bonus payable	17 323	12 262
Other accruals for incurred costs	18 430	8 050
Total	78 396	52 542

Note 13
Investment in subsidiaries

Amounts in NOK 1 000

Company	Acquisition date	Location	Equity and	Book value	Book value
		voting share	31.12.2012	31.12.2011	
4sea energy AS	11.02.2010	Norway	100,00%	50 000	50 000
Total				50 000	50 000

On 11 February 2010, North Energy ASA completed the acquisition of 100% of the outstanding shares in 4Sea Energy AS. The consideration for the aquisition comprises 1 886 792 new issued shares in North Energy ASA, each with par value of NOK 1 at a price of NOK 26.5, i.e. a total consideration of NOK 50 million.

Note 15
Tax

Specification of income tax:

Amounts in NOK 1 000	2012	2011
Calculated refund tax value of exploration costs this year	415 828	531 168
Of this, refund not recognised in income statement (acquisition of licences recognised net of tax)	(62)	(29 902)
Correction refund previous years	(261)	(6 281)
Change deferred tax in balance	90 396	(156 434)
Of this, deferred tax asset not recognised in income statement (acquisition of licences recognised net of tax)	(1)	(0)
Of this, deferred tax not recognised in income statement (sale of licences recognised net of tax)	(87 806)	0
Of this, deferred tax asset related to items in comprehensive income recognised in comprehensive income	6 508	291
Of this, deferred tax asset related to equity transactions recognised directly in equity	(2 355)	0
Total income tax credit	422 248	338 841

Specification of tax receivable refund tax value exploration expenses:

Amounts in NOK 1 000	31.12.12	31.12.11
Calculated refund tax value of exploration costs this year	415 828	531 168
Correction refund previous years, assessed but not settled	(233)	0
Total tax receivable refund tax value exploration expenses	415 595	531 168

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

Note 14
Related parties

See note 14 in the consolidated financial statements.

Note 15
Tax (continued)

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

Amounts in NOK 1 000	31.12.12	31.12.11
Property, plant and equipment	596	4 503
Capitalised exploration and licence costs	268 820	358 604
Pensions	(1 255)	(10 304)
Current borrowings	9 757	3 825
Tax losses carried forward, onshore	0	0
Tax losses carried forward, offshore only 28% basis	(84 136)	(46 372)
Tax losses carried forward, offshore only 50% basis	(904)	(887)
Tax losses carried forward, offshore both 28% and 50% basis	(97 511)	(77 694)
Total basis for deferred tax	95 367	231 675
Deferred tax liability (-) / tax asset (+)	(111 829)	(202 225)
Not capitalised deferred tax asset (valuation allowance)	0	0
Deferred tax liability (-) / tax asset (+) in balance	**(111 829)**	**(202 225)**

Reconciliation of effective tax rate:

Amounts in NOK 1 000	2012	2011
Profit before tax	(558 582)	(448 089)
Expected income tax credit 78%	435 694	349 509
Adjusted for tax effects (28% - 78%) of the following items:		
Permanent differences	(3 580)	(2 504)
Correction previous years	(812)	(2 046)
Interest on tax losses carried forward offshore	1 402	986
Finance items	(10 456)	(7 104)
Change in valuation allowance for deferred tax assets and other items	0	0
Total income tax credit	**422 248**	**338 841**

Note 16
Property, plant and equipment

Amounts in NOK 1 000	Equipment, office machines, etc
2012	
Cost:	
At 1.1.2012	39 039
Additions	3 865
Disposals	0
At 31.12.2012	**42 904**
Depreciation and impairment:	
At 1.1.2012	(16 967)
Depreciation this year	(10 183)
Impairment this year	0
Disposals	0
At 31.12.2012	**(27 150)**
Carrying amount at 31.12.2012	**15 754**
2011	
Cost:	
At 1.1.2011	25 952
Additions	13 087
Disposals	0
At 31.12.2011	**39 039**
Depreciation and impairment:	
At 1.1.2011	(9 785)
Depreciation this year	(7 182)
Impairment this year	0
Disposals	0
At 31.12.2011	**(16 967)**
Carrying amount at 31.12.2011	**22 072**
Economic life	3-10 years
Depreciation method	linear

Note 17

Capitalised and expensed exploration and licence costs

(a) Capitalised exploration and licence costs

Amounts in NOK 1 000	Capitalised exploration and licence costs
2012	
Cost:	
At 1.1.2012	367 657
Additions*	286 359
Disposals, impairment**	(271 995)
Disposals, sale**	(113 182)
At 31.12.2012	**268 839**
Amortisation and impairment:	
At 1.1.2012	0
Amortisation this year	0
Impairment this year **	(271 995)
Disposals**	271 995
At 31.12.2012	**0**
Carrying amount at 31.12.2012	**268 839**

* Additions relate mainly to drilling of exploration wells in PL 450 (Storebjørn) and PL 385 (Jette), and the acquisition of PL 498 (Skagen) from subsidiary 4Sea Energy AS (see note 24).

** Disposals relate mainly to impairment of capitalised exploration and licence costs in PL 450 (Storebjørn), PL 385 (Jette) and PL498 (Skagen) owing to dry well results, and the sale of PL 433 (Fogelberg).

Amounts in NOK 1 000	Capitalised exploration and licence costs
2011	
Cost:	
At 1.1.2011	122 365
Additions*	304 324
Disposals**	(59 033)
At 31.12.2011	**367 657**
Amortisation and impairment:	
At 1.1.2011	0
Amortisation this year	0
Impairment this year**	(59 033)
Disposals**	59 033
At 31.12.2011	**0**
Carrying amount at 31.12.2011	**367 657**

* Additions are mainly related to drilling of exploration wells in PL 535 (Norvarg), PL 530 (Heilo) and PL 518 (Zapffe), and the acquisition cost of PL 450 (Storebjørn) recognised net of tax.

* Disposals relate to impairment of capitalised expenses in PL 530 (Heilo) and PL 518 (Zapffe) owing to dry well result.

Depreciation method: Capitalised exploration and licence costs will be depreciated using the unit-of-production method, if and when reserves are produced.

(b) Expensed exploration and licence costs

Specification of expensed exploration and licence costs:

Amounts in NOK 1 000	2012	2011
Share of exploration expenses from participation in licences, incl seismic, G&G, dry wells, carry	88 066	196 330
Impairment of exploration and licence costs	271 995	59 033
Seismic and other exploration costs	113 843	61 281
Total exploration and licence costs	**473 904**	**316 643**

Note 18

Finance income and costs

Finance income:

Amounts in NOK 1 000	2012	2011
Interest income bank deposits	1 289	868
Interest income on tax refund	9 016	6 276
Other interest income	241	289
Foreign exchange gain	7 389	8 845
Finance income, joint ventures	308	2 073
Other finance income	1	1
Total finance income	**18 243**	**18 351**

Finance costs:

Amounts in NOK 1 000	2012	2011
Interest expense and transaction costs on current borrowings	33 156	20 068
Interest expense on loan from subsidiary	393	1 334
Foreign exchange loss	6 655	12 009
Other finance costs	630	18
Total finance costs	**40 834**	**33 430**

Note 19

Financial instruments

(a) Categories of financial instruments

At 31 December 2011:

Amounts in NOK 1 000	Loans and receivables
Assets:	
Other non-current receivables (see note 7) [1]	7 600
Other current receivables (see note 8)	30 521
Cash and cash equivalents	27 728
Total	65 850

Amounts in NOK 1 000	Financial liabilities measured at amortised cost
Liabilities:	
Trade creditors	43 585
Other current liabilities (see note 12) [2]	56 545
Current borrowings	169 313
Loan from subsidiary	29 359
Total	298 803

At 31 December 2010:

Amounts in NOK 1 000	Loans and receivables
Eiendeler:	
Assets:	
Other non-current receivables (see note 7) [1]	11 302
Other current receivables (see note 8)	45 815
Cash and cash equivalents	34 054
Total	91 171

Amounts in NOK 1 000	Financial liabilities measured at amortised cost
Liabilities:	
Trade creditors	65 002
Other current liabilities (see note 12) [2]	40 689
Current borrowings	348 348
Loan from subsidiary	17 984
Total	472 023

[1] Pension assets are excluded since they are not defined as financial instruments.

[2] Public duties payable and accruals for incurred costs are excluded since they are not defined as financial instruments.

(b) Fair value of financial instruments

Fair value other non-current receivables:

The fair value of other non-current receivables is calculated by discounting cash flows with a rate equal to an alternative rate of 5.0% (2011: 5.0%). The discount rate correspond to 10-year fixed-rate loans with the addition of relevant credit rating.

Amounts in NOK 1 000	2012	2011
Other non-current receivables (see note 7)	5 955	8 788

The carrying amount of cash and cash equivalents and other current receivables is approximately equal to fair value since these instruments have a short term to maturity. Similarly, the carrying amount of trade creditors, other current liabilities, current borrowings and loan from subsidiary is approximately equal to fair value since the effect of discounting is not significant.

(c) Creditworthiness of financial assets

The company does not have a system that separates receivables and loans by counterparty credit rating. Non-current receivables are mainly loans to employees. Loans to employees are repaid as agreed and these loans have not been impaired in 2011 or 2012. Cash and cash equivalents are receivables from banks, and Standard & Poor's credit rating of these banks is presented below:

	2012	2011
Bank deposits:	27 728	34 054

Amounts in NOK 1 000	2012	2011
No external credit rating	0	0
A	27 728	34 054
AA	0	0
Total	27 728	34 054

(d) Financial risk factors

See note 3 for financial risk factors and risk management, sensitivity analysis and capital management.

Note 20
Leases

The company has no finance leases.

The company has entered into operating leases for office premises, cars, machinery and office furniture. The leases are cancellable and do not impose any restrictions on the company's dividend policy or financing opportunities.

The lease costs consist of ordinary lease payments and include:

Amounts in NOK 1 000	2012	2011
Lease office premises (inclusive joint costs)	5 622	4 892
Lease machinery and office furniture	429	368
Lease cars	356	650
Total lease costs	6 407	5 910

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

Amounts in NOK 1 000	2012	2011
Within 1 year	2 746	2 746
1 to 5 years	10 984	10 984
After 5 years	10 984	13 730
Total	24 713	27 459

Note 21
Pension

See note 21 in the consolidated financial statements.

Note 22
Loan from subsidiary

Amounts in NOK 1 000	2012	2011
Loan from subsidiary 4Sea Energy AS	29 359	17 984
Total	29 359	17 984

Interest rate is NIBOR + 3%. The loan is planned to be repaid in 2013.

Note 23
Gain from sales of licences

See note 22 in the consolidated financial statements.

Note 24
Acquisition of licences from subsidiary

North Energy ASA has acquired interests in PL 498, PL 503 og PL 503B from its wholly owned subsidiary 4Sea Energy AS for a consideration of NOK 37 million in addition to the pro and contra settlement. Effective date for the transaction is 31.12.2012.

Note 25
Contingent liabilities

The company has not been involved in any legal or financial disputes in 2012 or 2011,

Note 26
Shares in licences and obligations

Shares in licences at 31 December 2012:

Licence	Share
PL 299	20%
PL 370/370B	10%
PL 385	15%
PL 450	15%
PL 498	25%
PL 503/503B	25%
PL 510 *	100%
PL 518/518B	30%
PL 526	67%
PL 530	20%
PL 535	20%
PL 562	10%
PL 564	20%
PL 587	40%
PL 590	40%
PL 594	20%
PL 595	40%
PL 601	20%
PL 616	20%
PL 656	10%

* Share in licence PL 510 was reduced to 20% in January 2013

Shares in licences at 31 December 2011:

Licence	Share
PL 341	11%
PL 370/370B	10%
PL 385	35%
PL 433	12%
PL 450	15%
PL 510	20%
PL 518/518B	30%
PL 526	40%
PL 530	20%
PL 535	20%
PL 536	20%
PL 562	10%
PL 564	20%
PL 587	40%
PL 590	40%
PL 594	20%
PL 595	40%
PL 601	20%

Obligations at 31 December 2012:

Licence	Share	Obligation	Expected time
PL 299	20%	One firm well	Well Q2-2013
PL 535	20%	One firm well (appraisal)	Well Q2-2013

Obligations at 31 December 2011:

Licence	Share	Obligation	Expected time
PL 370	10%	One firm well.	Well Q2-2012
PL 385	35%	One firm well.	Well Q3-2012
PL 450	15%	One firm well.	Well Q1-2012

Note 27
Events after the balance sheet date

See note 25 in the consolidated financial statements.

Responsibility statement by the board of directors and CEO

We declare, to the best of our judgement, that the annual financial statements for the period from 1 January to 31 December 2012 have been prepared in accordance with the applicable accounting standards, and that the information in the accounts fairly reflects the company's and group's assets, liabilities, financial position and results as a whole. We also declare that the directors' report provides a true and fair view of the company's and group's performance, results and position, along with a description of the most important risk and uncertainty factors facing the company and group.

Alta, 19 March 2013

Johan Petter Barlindhaug
Chair

Leif W Finsveen
Director

Harriet Hagan
Director

Ola Krohn-Fagervoll
Director

Ane M S Rasmussen
Director

Heidi M Petersen
Director

Erik Karlstrøm
CEO

Auditor´s report

To the Annual Shareholders' Meeting of North Energy ASA

Independent auditor's report

Report on the Financial Statements

We have audited the accompanying financial statements of North Energy ASA, which comprise the financial statements of the parent company and the financial statements of the group. The financial statements of the parent company and the financial statements of the group comprise the balance sheet as at 31 December 2012, income statement, statement of comprehensive income, changes in equity and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

The Board of Directors and the Managing Director's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 judgment, 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 financial statements are prepared in accordance with the law and regulations and present fairly, in all material respects, the financial position for the parent company and the group North Energy ASA as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

PricewaterhouseCoopers AS, Postboks 6128, NO-9291 Tromsø
T: 02316, org. no.: 987 009 713 MVA, www.pwc.no
Statsautoriserte revisorer, medlemmer av Den norske Revisorforening og autorisert regnskapsførerselskap

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report and statement of corporate governance principles and practices

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors report and statement of corporate governance principles and practices concerning the financial statements and the going concern assumption, and the proposal for coverage of the loss is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

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

Tromsø, 19 March 2013
PricewaterhouseCoopers AS

Kent-Helge Holst
State Authorised Public Accountant (Norway)

Note: This translation from Norwegian has been prepared for information purposes only.

Main office, Alta
Phone: +47 78 60 79 50
Fax: +47 78 60 83 50
post@northenergy.no
www.northenergy.no

Visiting address:
Kunnskapsparken Syd
Markveien 38B, Alta

Postal address:
P O Box 1243
NO-9504 Alta
Norway

Legal org number:
NO 891797702 MVA

Offices:

Oslo
Visiting address:
Karl Johansgt 13
NO-0154 Oslo
Norway

Stavanger
Visiting address:
Skagenkaien 1
Postal address:
P O Box 250
NO-4006 Stavanger
Norway

Tromsø
Visiting address:
Tromsø Forskningspark
Sykehusveien 23
NO-9294 Tromsø