

**North Energy's discovery rate is according to statistics, but disappointing commercial results.
Increased focus towards the position in the North.**

North Energy was founded on a plan of financing eight wells to be drilled in the period from 2009 to 2012. These wells have now been drilled. Following the IPO, a new share issue targeting four more wells has been conducted. Of these wells, three still remain. Two of these are to be drilled in 2013, while the third is to be drilled in 2014.

The expected outcome of the first eight wells was two to three discoveries. North Energy has by now drilled four gas prospects and five oil prospects. Gas has been discovered in all gas prospects, while the five oil wells were all dry. Fogelberg and Norvarg are considered commercial accumulations of gas and Jette is being evaluated by Statoil. The reservoir in Stirby seems too tight for commercial production.

The limited selection is not statistically significant, but very much in line with discovery rates in Norway lately. The rate has up to now been lower in the North than in the North Sea. It is therefore unusual that North Energy has a commercial rate of 50% in the North, while the wells in the South have been dry.

Since the founding day, the strategy of North Energy has had two main elements:

1. Focus on the best blocks in the numbered license awards in the North.
2. While waiting for value to become visible in the North, purchase of oil wells and discoveries in the South is planned to finance the company.

It appears that the core strategy in the North has succeeded. Data and competence in the North exist, only Statoil has received more licenses since the start and North Energy has discovered more hydrocarbons per well than most competitors. This is overshadowed by the lack of sellable oil discoveries which may finance the activities until the value in the North becomes visible to the market.

The 22nd licensing round in the Barents Sea is the target for the most ambitious effort for North Energy until this day. The company's liquidity is never the less of concern as far as receiving a number of financially demanding awards. This situation is seen by the market which discounts the value of the company by expectations of a new share issue and subsequent expected discounts. This makes a share issue less interesting, and management has been requested to seek industrial solutions to solve the issue. A further development along North Energy's strategic elements meets two main challenges:

1. Improved liquidity before the financial stress test by the authorities. The criteria's for awards in the most competitive areas have been tightened ahead of the 22nd licensing round. Awards will take place just after Easter.
2. Improve ability to discover sellable oil so the long term activity in the North is sustainable and creating value instead of promoting returning issues of financing.

Continued focus towards the North, supported by oil discoveries in the South

The situation of five dry wells does not occur overnight. Instead of referencing to the many companies with an even poorer exploration record, North Energy started to benchmark its exploration activities to the company's that find oil most frequently. The goal is obviously to improve the quality of the prospects before deciding to drill. Repeated feedback from license applications from the oil directorate indicates that the geological work in North Energy is of the finest quality. It appears that intensive use of cutting edge geophysical technology on huge volumes of seismic data is the signature of those that have a high hit rate. This development often occurs internally in the larger companies which succeed. Systematic application of ever changing geophysical tools is a challenge for smaller companies. The solution to North Energy seemed to look for a geophysical partner.

In the period leading up to the announcement of the 22nd licensing round, North Energy became aware of a new technology which claimed to be capable of direct detection of oil by its resonating frequency. The technology has its birthplace at the University of Lund in Sweden and is commercialized under the brand Virtual Drilling (VD). The company, Rex, owner of the technology, has commercialized comparable technology in different fields. In oil and gas, Rex has been involved in Norway since the early eighties. Lately, Rex has turned more towards the Middle-East and the US where they presently are facing 40 wells, located by the use of the VD-technology.

Early in 2012 North Energy decided to invest in a blind test of VD by giving Rex 2D data over eight oil wells. Three of these had discovered commercial oil, three had encountered immovable oil or traces of oil, and two wells were completely dry. The knowledge of the location of the wells and seismic data existed only with the chief geophysicist of North Energy.

The results of these tests were quite exceptional. Not only would Rex have decided to drill only the three wells with commercial volumes of oil (one would have been moved), but also predicted which wells had traces of oil and which were completely dry. It should be noted that the selection is small and that possible sources of error are obviously still unknown. The indication still is that North Energy would have found oil more often with Rex on the team. Today, Rex has analyzed 11 prospects, still without mistakes. In the two last wells of North Energy the analyses arrived too late for North Energy to influence the outcome or participation.

More successful Norwegian companies that focus on geophysics have cast their eyes on the VD-technology and have asked Rex to be their partners. Rex has so far chosen to cooperate with North Energy in Norway. A four year technology agreement was signed 20.02.13. Similar agreements have been made with other companies in India, New Zealand and in the US, while Rex operates on their own in the Middle-East. Rex is now expanding quickly. Increasing capacity can handle a larger selection of oil prospects based on larger volumes of seismic data. An increased need for seismic also suggests a partner supplying seismic data for mutual benefit. A solution for North Energy could be two new partners who jointly are able to embark on improving the hit rate of oil exploration and in doing so, contribute with an industrial solution to the financial liquidity for North Energy. This is seen as the best solution to optimize the chances of North Energy future success, starting with good awards in the upcoming 22nd licensing round.

An industrial solution with two complementary partners

North Energy has entered into partnership with two players who both have the industrial insight and see a greater value in North Energy than what would be the case in a potential new share issue. The way to realize this advantage is to ask the partners to contribute with data and services under a loan facility which is convertible to shares at price which reflects the underlying value in the venture. This would not only lighten the burden on North Energy's liquidity, but actually improve it.

North Energy will only invest in the services which create value in the process, and thereby reduce the need for new capital. TGS is the market leader in seismic data in North Energy's core area, the Barents Sea. Negotiations ahead of the two agreements have been helped by the parties' view of the industrial rationale at the base of the deal. It is important to note that not all activities in North Energy will relate to VD. North Energy will be ordering the services and decide on which part of the activities will pass through a process which involves VD. The process is driven by success. If oil is not found, activities will slow down and come to a halt. The need for the loan facility will also be governed by this. In the meantime North Energy can document improved financial strength to receive promising licenses in the 22nd licensing round.

Conclusive remarks

The financial arrangements agreed with Rex and TGS represents a significant milestone for North Energy. The company is now financed for several years and again able to take on a significant drilling program. Short term the increased financial strength means that North Energy will be able to accept awards in 22nd licensing round with a considerable work program. And most importantly, we think the cooperation with Rex and TGS is the best way for North Energy to meet the challenge of improving the ability to discover sellable oil.