Annual Report 2010

Photo: Bjarne Riesto

Content

Vision

The company's vision is to develop a leading and profitable oil and gas company that actively contributes to industrial value creation in Northern Norway.

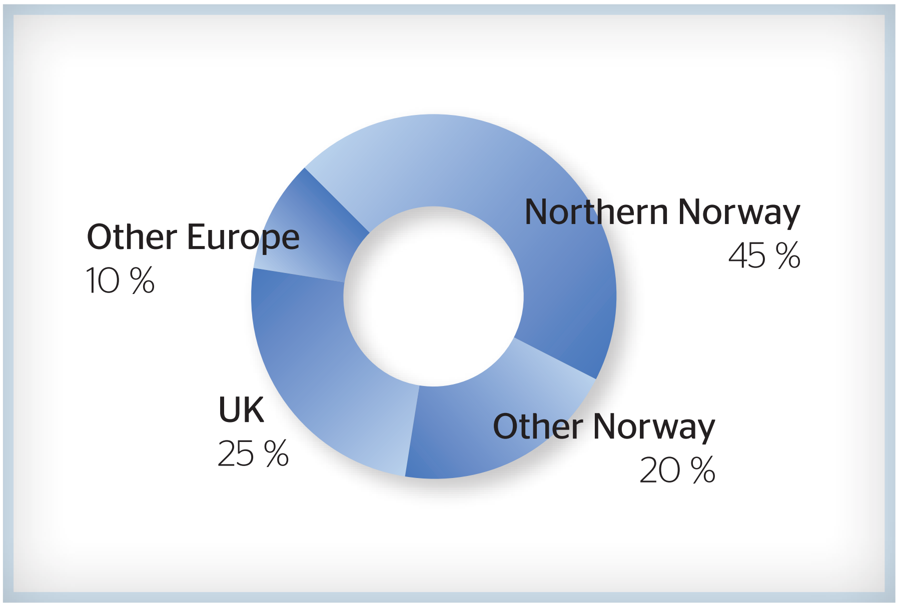
Photo: Thomas Bjørnflaten

Photo: Archive

Key figures

		2010	2009	2008	2007
Exploration costs	NOK million	- 179.049	- 113.098	- 62.789	0
Payroll costs	NOK million	- 62.149	- 62.370	- 41.696	- 0.752
Profit/loss for the year after tax	NOK million	- 62.916	- 64.417	- 39.277	- 6.879
Balance sheet total	NOK million	638.056	242,299	146.904	41.682
Working capital	NOK million	397.437	136,276	95,164	34.899
Equity ratio		75 %	63 %	77 %	96 %
Cash flow before financing	NOK million	- 246.137	- 95,638	- 129.444	- 28.139
Number of shares		25,149,736	9,200,970	581,122	15,000
Nominal value per share	NOK	1	1	10	100
Share price	NOK	22.8			
Market capitalisation	NOK million	573.4			
Employees		43	38	31	1
Licences (operatorships)		21 (2)	8 (1)	0	0

Shareholder composition



Values, goals and strategies

Our values

North Energy has four core values that characterise our activities through our actions and words:

- **To be at the forefront** – to be innovative and alternative, develop new ideas, solutions and technologies, to be the first to show the way

- **To be competent** – to possess state-of-the-art knowledge, to be a reference for others through our actions and words, to set a good example

- **To be a bridge-builder** – to bring people together, to point out the main directions, to be a preferred partner, focus and facilitate

- **To be a fearless voice in the North** – to dare to say what we think is right and speak out for the Northern Norway community

Goals and strategies

North Energy's goal is to create value for its shareholders and contribute to ripple effects onshore by participating in exploration, development and production activities off the coast of Central and Northern Norway.

The company's core activities involve the development of profitable and sustainable petroleum operations in Northern Norway, where the central focus is on facilitating local activity and ripple effects throughout the region.

North Energy's main strategies

- To establish and develop a profitable oil and gas company through the acquisition and allocation of the best licences in the northern part of the Norwegian North Sea and the Barents Sea.
- To ensure an adequate capital base to sustain the company throughout the entire value chain.
- To ensure access to profitable investment opportunities by being an attractive partner for the authorities and leading oil companies.
- To be a credible partner for important stakeholders, such as suppliers, the fishing industry and environmental groups.

The company has prospects with a high probability for discoveries located near existing infrastructure in its portfolio.
In addition, the company stresses the importance of further optimisation of the portfolio through licensing rounds and buying and selling licences.

Oil and gas activities in these northern areas require a high level of oil pollution preparedness along the coast and a close dialogue with representatives from coastal communities. North Energy has contributed to the development of a special concept for these areas in cooperation with a number of entities.

North Energy has chosen to focus systematically on innovative solutions. Close contact with the supplier industry and technology environments helps the company optimise opportunities and plans for further research and development. The company develops skills that are required to make decisions along the entire value chain that characterises the petroleum industry, within a long-term and environmental perspective.

Our roots in Northern Norway make us a different kind of company. One of North Energy's strengths is the fact that it has knowledge of how different topics are perceived among the people along the coast through its local roots. The company would, therefore, like to be a discussion partner for the creation of value based on oil and gas in the North. A shared understanding of attitudes and views provides a good basis for constructive dialogue on specific activities, plans and challenges.

Historic milestones

2007	September:	North Energy was established on the banks of the Alta River
	November:	Erik Karlstrøm takes office as the Chief Executive Officer
	2007 – 2009:	Financed by capital from Northern Norway
2008	August:	Prequalified as a licensee
	December:	Awarded two licences in the APA 2008
2009	March:	Prequalified as an operator
	April:	Awarded four licences in 20th round, including an operatorship
	2nd half of the year	Acquired two licences
	December:	Awarded three licences in the APA 2009
2010	February:	NOK 400 million in financing raised
		Listed on Oslo Axess
		Acquisition of 4sea energy
	April:	Discovery in PL 433 Fogelberg
	October:	Acquisition of PL 341 Stirby
	December:	Sub-commercial discovery of hydrocarbons in Stirby
2011	January:	Awarded five licences in the APA 2010
	February:	North Energy grows to 50 employees

Photo: Thomas Bjørnflaten

Important events

Photo: Oslo Børs

Events in 2010

Successful capital increase and stock exchange listing

North Energy was listed on Oslo Axess on 5 February after a successful oversubscribed new issue of NOK 350 million.

Acquisition of 4sea energy AS

All the shares of 4sea energy AS were acquired in February.

Discovery on first attempt

Drilling in PL 433 Fogelberg started in February with North Energy as a 12 per cent partner.

Hydrocarbons were discovered in Fogelberg as early as March.

Tight formations in Stirby

North Energy acquired an 11 per cent interest in PL 341 Stirby on 29 October. One month later hydrocarbons were proven in the deeper portion of the licence. In December the discovery was declared sub-commercial due to tight formations. The opportunities in the upper portion where the licence's main reservoir is located are still under assessment.

Events to date in 2011

New exploration loan facility of NOK 760 million

In January 2011 an agreement was entered into with DnB NOR and SEB relating to an exploration loan facility of NOK 760 million, with DnB NOR leading the syndicate of banks. BNP Paribas subsequently joined the syndicate.

Licence allocations for the APA 2010 – North Energy once again among the winners

In January 2011 North Energy was awarded two licences in the Barents Sea, two licences in the Norwegian Sea and one in the North Sea. The allocation included the operatorship of PL 590 Mikkeli in the Norwegian Sea.

Acquisition of a new licence

In March 2011, the company acquired 10 per cent of PL 370 Kakelborg and increased at the same time its interest in PL 385 Jette from 15 per cent to 35 per cent.

CEO'S COMMENTS:

"We are starting in earnest now"

The year 2010 was the year when North Energy became an operative oil company and participated in the drilling of the two first wells out of a total of eight wells that represented the basis for the establishment of the company. These wells were also the background for raising capital at the start of the year.

The stock exchange listing and raising of capital in February, as well as the start of drilling at Fogelberg in the following month, represented important long-planned milestones in the development of North Energy. The company would not have looked like it does today without these events, which, like the milestones in 2008 and 2009, were reached around one year earlier than assumed in the company's first plan from 2007. After new awards and acquisitions in 2010, we now have 21 licences and are around one year ahead of our original plans.

New capital to finance the eight fixed wells, new professional investors from Norway and abroad, and a stock exchange listing, marked the end of our first phase in 2010, which made it necessary for us to look ahead towards new goals. With a higher level of activity than envisioned in 2007 as its point of departure, the Board of Directors and management team extended the company's plans beyond 2012 based on assumptions concerning new areas in the eastern Barents Sea, as well as in Lofoten and Vesterålen.

Our new strategy development work resulted in goals for value creation and growth that are more ambitious than the goals that existed during our capitalisation early in 2010. The higher level of activity also enables us to use additional resources on portfolio optimisation and the acquisition and sale of licences, including North Sea licences. During the first three years, North Energy has advanced along the value chain faster than envisioned.

Our local presence – a competitive advantage

Organisational growth throughout 2009 and 2010 followed the development of our activities through the acquisition and sale of licences from a new satellite office in Stavanger and the establishment of offices, first in Bodø, and then lastly an office in Tromsø. The decisions to establish new offices were made based on North Energy's experiences with new communication technology and the fact that the oil-related activities in Norway are in the process of spreading northwards along the coast.

Spreading out our employees and offices may be challenging organisationally and with respect to communication, but for us it represents an important competitive advantage at the same time. Recognition of the fact that the activities along the coast start up before the areas are opened is a prerequisite for being able to participate in the first wave of awards along the coast. Being first in the battle for the best blocks is one of North Energy's most important criteria for success.

Valuable dialogue

Since the establishment of the company, North Energy has sought to contribute to increasing the creation of value locally and good industrial solutions. Throughout 2010 and 2011 North Energy has focused on these efforts in relation to the fishing interests in Lofoten and Vesterålen in order to contribute expertise with respect to obtaining new knowledge and establishing a growing understanding of the shared responsibility for stewardship that lies with all the members of the business community in this vulnerable area.

It is a great challenge to work with the distribution of factual information with respect to an issue where the national and local media focus on feelings and contradictions. In this minefield, many external entities create a profile through

Photo: Thomas Bjørnflaten

continuous attempts to polarise any issues that exist between the petroleum industry and other business sectors in Lofoten and Vesterålen.

The establishment of a Dialogue Forum for fishing and petroleum in Lofoten and Vesterålen in connection with our newly established office in Bodø is an example of establishing a presence before the opening of an area. For many people in Nordland, this was their first real encounter with North Energy. Gradually as this forum developed into a workshop for new ideas among fishermen, the fishermen and their organisations also got to know an oil company that dealt with the northern regions differently than the major international companies.

The fishermen can now talk directly with decision-makers who come from the region and who will remain there during the establishment of activities. When the oil and gas activities end some time in the future, those who participated in this forum for dialogue will probably long since have entrusted the coming generations with this responsibility. The next generation is already threatening to leave the region, while we see that the northern regions will be able to supply fossil energy for at least three generations to come, before a renewable alternative has hopefully been established. It is also important to our industry that people still live here who can help preserve and build coastal communities in Lofoten and Vesterålen, as well as the coast of Finnmark whenever new activities are established.

The Øksnes requirements came from the Dialogue Forum. This can be classified as the first attempt at a proactive approach to shared stewardship of oil and fish in Lofoten and Vesterålen, which does not exist outside of Northern Norway. Attempts have long been made to make Lofoten and Vesterålen a symbol of protection against activities by centralised forces that can be carried out at no own cost in areas far far away.

Recognition of the importance of the northern regions to Norway's energy policy

What is becoming more and more obvious as time passes is the fact that Lofoten and Vesterålen will play a key role in the process towards access to the gas resources in the entire Barents Sea. Without pipelines that are financed by new discoveries off the coast of Nordland and Troms, we will be forced to use LNG (Liquefied Natural Gas) or acquire access to Russian pipelines to Europe. LNG requires larger gas deposits than pipeline access. Lofoten and Vesterålen will thus be critically important to the development of all of Northern Norway and Norway's role as a supplier of gas to Europe.

It is clearly evident from an analysis report on the northern regions that was prepared in 2010 that we are no longer talking about a sparsely populated playground for symbolic policies. The analysis was prepared by North Energy in dialogue with Gassco, Statnett and other important premise providers in the North on behalf of the Barents Secretariat and the three northernmost county authorities. This report will be presented in its entirety in 2011 and defines Lofoten and Vesterålen as a very decisive element in an energy policy perspective with clearly positive global climate consequences.

Drilling of wells and building up a portfolio

The two most important events for North Energy in 2010 were the drilling of the two first wells. In PL 433 the Fogelberg prospect was drilled with North Energy as a partner and a 12 per cent ownership interest. At the end of March 2010 the discovery of hydrocarbons in the licence was reported, and, as time has passed, all indications point towards a commercially viable field. We are currently working on the formal start-up of the Plan for Development and Operation (PDO) process. Our goal is to make a conclusion in the middle of 2011 whether work on a PDO can continue without drilling additional wells. The licence partners are working well together with the operator Centrica.

In October 2010, North Energy acquired an 11 per cent interest in PL 341 Stirby in the North Sea. Drilling had already started, and hydrocarbons were proven in the deeper portion of the well. A majority of the licence partners declared the deposit to be sub-commercial, primarily due to the tight formations. There was no consensus among the licence partners with regard to the potential or closing the well, but North Energy did not manage to obtain enough support for its view. Now we are gathering valuable experience from this event. In licences with many small co-owners it is important to find good allies with common goals and good technical expertise. In 2011 North Energy will focus more on potential cooperation and alliance partners.

PL 433 Fogelberg and PL 341 Stirby are the two first wells in licences where North Energy has acquired interests from other companies. Three other licences with wells were acquired in 2010, and two new acquisitions have already been made in 2011. Acquisitions should go hand in hand with the allocation of new licences, and five new licences and the company's second operatorship were allocated to North Energy through the APA 2010. We hit the jackpot with respect to the company's application and an evaluation of the company's expertise as an operator by the authorities. North Energy has thus 21 licences.

Good team spirit during an exciting waiting period

Being the CEO of North Energy is a challenge that consists of more than just making sure that the owners' capital is used in projects with the greatest possible potential for the creation of value at the lowest possible price and with the lowest possible risk of a loss. Anyone who is involved in exploration for oil and gas knows that the motivation that drives all of us to do our best is put to the test during a period without any exploration drilling after a disappointing result from a well.

I observe that those of us who work for North Energy are very motivated and hungry for success. For us the waiting period after the disappointing result from the well at Stirby late in 2010 has been long. It is good to ascertain then that no one is getting sick from a lack of motivation at North Energy. Our absence due to illness is far below one per cent.

We are, however, waiting impatiently for an uninterrupted series of wells that will start in April 2011. Some of these wells will also be dry, but then the owners, Board of Directors and those of us who work here will be able to look forward to the next well in the portfolio that will in time give North Energy a discovery at a lower cost than that of most of our competitors. A good organisation stands together as a team, whether they win or lose. That is the team spirit we want at North Energy, and I think we will win.

It has been exciting to be the CEO of North Energy up to now, and we have achieved many important goals – but we are starting in earnest now!

Erik Karlstrøm
Chief Executive Officer

SOCIAL RESPONSIBILITY AND ETHICS:

A responsible player on the Norwegian continental shelf

Operating responsibly and with integrity, we are committed to contributing to the positive development of our society in the North, without compromising the interests of our owners.

North Energy's Corporate Social Responsibility (CSR) will be a vital part of what we have formulated as our "Licence to Operate" on the Norwegian continental shelf.

The International Standards Organisation, ISO, has prepared an international standard for social responsibility (ISO 26000) that provides guidelines for how organisations can act in a socially responsible manner in accordance with the requirements posed by society. North Energy's guidelines for corporate social responsibility are in accordance with the recommendations in ISO 26000.

Photo: Bjarne Riesto

North Energy is committed to:

- Looking after the interests of our stakeholders: owners, employees, business associates and the various communities where we operate.
- Practising corporate governance in accordance with Norwegian company law and the Norwegian Code of Practice for Corporate Governance.
- Having practices that ensure openness, anticorruption measures and respect for human rights and standards for working life.
- Operating responsibly and with integrity, so that we contribute to a positive development of society in the North.
- Contributing to the creation of regional and national value.

How do we fulfil these commitments?

- North Energy, with its roots in Northern Norway, places a special focus on applying its northern expertise when encountering northern challenges. Hence we have a particular focus on environmental conditions in the North, which is expressed in our environmental strategy.
- We inform the public of conditions related to the industry and environment in the North.
- We identify needs, expectations, development opportunities and compensatory measures based on dialogue with our stakeholders, as well as risk and impact analyses.
- We support education and competence building within oil and gas-related subject areas in order to create lasting knowledge and competence.
- We ensure that our activities with respect to Corporate Social Responsibility (CSR) are planned in a professional manner and integrate them into our business planning.
- We follow up on the execution of CSR activities and measure the effects of the measures we undertake, both internally and externally.
- We work with promoting a diverse working environment, by recruiting and developing employees of both genders, in different living situations and with different backgrounds.

Exploration activities and portfolio

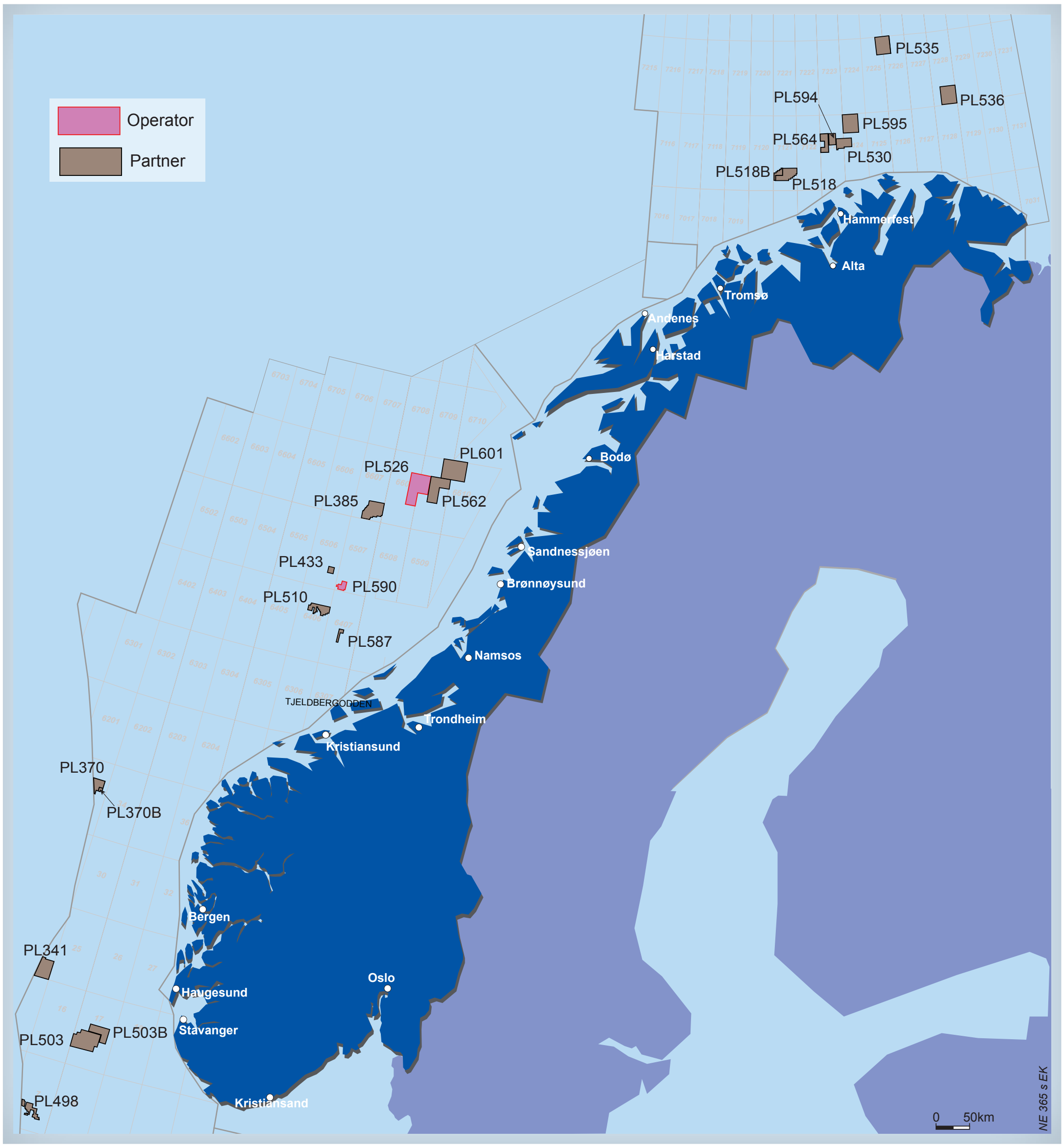
From the start North Energy has built up a portfolio of licences in the Barents Sea, Norwegian Sea and North Sea. After the allocations in the APA 2010 and acquisition of PL 370, the company has a total of 21 licences. Most of the licences have been allocated through licensing rounds.

North Energy has focused in particular on growth in the North, and this is reflected in turn in the portfolio. It is in the Barents Sea in particular that North Energy can show a level of activity on par with much larger companies.

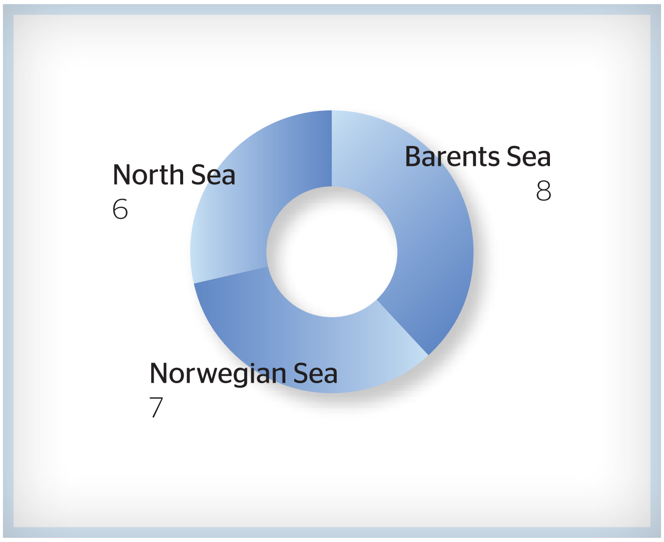
Drilling of two wells in 2010

Drilling of the Fogelberg prospect in PL 433 in the Norwegian Sea resulted in a gas and condensate discovery that will likely be developed. The discovery is located near existing infrastructure, and, since there is ongoing work to establish transport solutions in the area, North Energy is very positive about the future of the Fogelberg discovery. Unfortunately, drilling in the Stirby prospect in PL 341 in the North Sea proved negative. But the drilling did prove that the licence is situated in a prospective area, and we are working on the evaluation of several prospects in the block, which is very large in area.

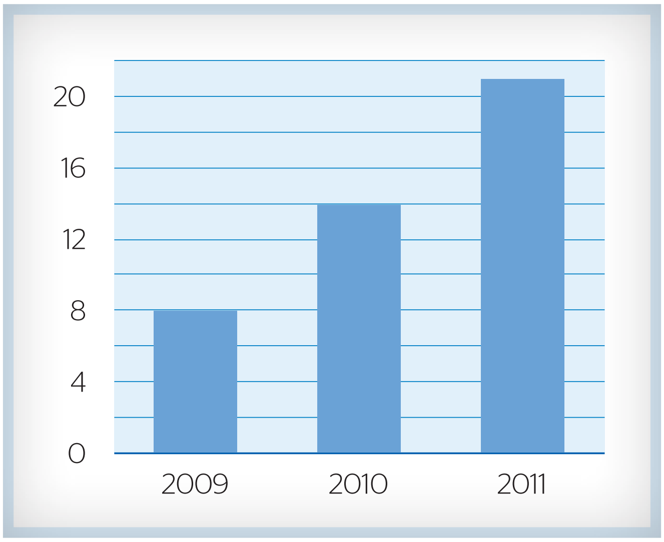
Licences



Geographic distribution of licences



Growth in the number of licences from start-up



Summary of licences

Licence	Interest	Operator	Well
Barents Sea			
PL 518	30 %	Dong	2011
PL 518 B	30 %	Dong	
PL 530	20 %	GdFSuez	2011
PL 535	20 %	Total	2011
PL 536	20 %	Statoil	DoD
PL 564	20 %	OMV	DoD
PL 594	20 %	Statoil	DoD
PL 595	40 %	Edison	DoD
Norwegian Sea			
PL 385	35 %	Statoil	2012
PL 433	12 %	Centrica	2010
PL 510	20 %	Centrica	DoD
PL 526	40 %	North Energy	DoD
PL 562	10 %	EON Ruhrgas	DoD
PL 587	40 %	Edison	DoD
PL 590	40 %	North Energy	DoD
North Sea			
PL 341	11 %	Det Norske	2010
PL 370	10 %	Agora Oil and Gas	2012
PL 370B	10 %	Agora Oil and Gas	2012
PL 498	25 %	Lotos	2012
PL 503	25 %	Lotos	DoD
PL 503 B	25 %	Lotos	DoD

DoD means that the licence will make a decision to drill or surrender

Barents Sea

The company has eight licences in the Barents Sea and is one of the companies with the most ownership interests in the area. The Barents Sea is a priority area for North Energy, and the company has had a lot of activity here since the beginning. It is particularly in the Hammerfest Basin that North Energy has strengthened its position, especially since the allocations in the APA 2010. This is the area we feel that our chance of discovering hydrocarbons is the greatest.

In the Barents Sea, North Energy has especially focused on gaining knowledge of the generation, migration and preservation of hydrocarbons. As a result of this work, we feel that there are great opportunities for oil discoveries, and this applies in particular to the Hammerfest Basin.

Participating in three wells in the Barents Sea

The first well North Energy will participate in in the Barents Sea will be Norvarg in PL 535, with Total as the operator. North Energy believes that there is a good possibility of finding gas in this structure. The reservoir here is primarily composed of sandstone from the Triassic age.

The second well North Energy will drill will be in Heilo, PL 530, which was assessed as one of the best during the 20th licensing round. The company hopes to find oil in Jurassic sandstone in this prospect. GdFSuez will operate this well.

The third well to be drilled in the Barents Sea will be the Zapffe licence, PL 518, possibly the most exciting of all our wells in the Barents Sea in 2011. Here the partners hope to discover oil in exploration models that have been explored to a limited extent in the Barents Sea. Reservoirs were created while active fault activity took place in the upper Jurassic and lower Cretaceous, so-called syn-rift sediments.

Overall North Energy will participate in three exploration wells in the Barents Sea in 2011, and in the event of discoveries in the Heilo and Zapffe wells, the company will also participate in two sidestep wells. This makes us one of the most active drilling partners in the Barents Sea this year.

Norwegian Sea

North Energy has seven licences in the Norwegian Sea, two of which have been acquired by so-called farm-ins. This applies to PL 433, where the Fogelberg discovery was made, which is operated by Centrica, and PL 385, which is operated by Statoil. The company is expecting to drill here late in 2011 or early in 2012.

After the APA 2010, North Energy has two operatorships in the Norwegian Sea. The licences that North Energy has in the Norwegian Sea are concentrated around infrastructure to which any discoveries can be connected, and in a northern area where the company's first self-operated licence (PL 526) is located.

In the Norwegian Sea, North Energy is primarily exploring traditional Jurassic fault traps, and thus there is a relatively high likelihood of discoveries in these prospects.

This applies to the PL 510, PL 385, PL 587 and PL 590 licences, where North Energy is exploring prospects with Jurassic sandstone in fault traps created after the sandstone was deposited. This exploration method has been very successful in the area, and discoveries have been made in more than half of these types of traps.

North Sea

North Energy has six licences in the North Sea. The partners in PL 498 have decided to drill the Skagen prospect. The drilling of this well is scheduled for 2012, and it will test an exciting exploration model in the Cretaceous that has been very successful in similar settings.

North Energy also has the prospect with the most potential in the entire exploration portfolio in the North Sea, the Valberget prospect. Since the prospect represents a new exploration model, the Valberget prospect carries a very high risk.

North Energy drilled a dry well in the North Sea in 2010, the Stirby prospect. The well was primarily to test the upper Jurassic sandstone, but the reservoir was not present. There were traces of gas in the deeper levels of the well, but impervious rock types mean that it is unlikely to produce any hydrocarbons.

In March 2011, North Energy signed an agreement with Wintershall Norge ASA to acquire a 10 per cent share in the licences PL 370 and PL 370B Kakelborg. At the same time, North Energy will take over Wintershall's 20 per cent interest in licence PL 385 Jette. The deed is expected to be signed by the summer of 2011. This agreement entails that North Energy has an additional two wells in its portfolio. PL 370 will be drilled early i 2012, and it will be the seventh well in North Energy's drilling portfolio. North Energy considers the Kakelborg prospect to be a very interesting prospect in the northern North Sea.

Drilling operations 2010

North Energy participated in two drilling operations in 2010. Well 6506/9-2 in PL 433 Fogelberg was drilled in February–April with Centrica Norway as the operator. This was a well under very high pressure and with high temperatures, and it was the first well Centrica drilled on the Norwegian continental shelf. Gas condensate was discovered in the Garn and Ile formations in the Early to Middle Jurassic, and several core samples were taken of the well.

Well 24/12-6 S2 in PL 341 Stirby was drilled in August-December with Det norske Oljeselskap as the operator. This was also a well where high pressure and high temperatures were expected in the reservoir. The well proved gas in the Hugin/Sleipner formation in Middle Jurassic, but further data collection could not confirm the degree of saturation or productivity, and the well was declared dry.

The discovery was classified as a contingent resource in accordance with the SPE classification system, and according to the Norwegian Petroleum Directorate it will be classified 5F – production likely, but not clarified. North Energy's unaudited net contingent resource estimate for Fogleberg is 6 million barrels of oil equivalents.

Petroleum activities moving northwards

Norwegian petroleum activities are moving increasingly faster towards Northern Norway, a trend that is further amplified by the clarification of the boundary line with Russia. The Norwegian and major international oil companies are looking towards the northern regions to realise their potential and plans for growth on the Norwegian continental shelf. In the near future, we will see a shift in the main petroleum activities from the south to the north. North Energy grew up in the North. We will remain in the North, and we will create value in the North.

Creating confidence in the future

By developing the region further, we will see business, education, culture and general welfare prosper. These are elements of a society's development that provide positive synergies and ripple effects.

By providing people who grow up in northern Norway with prospects of varied, interesting and good workplaces, the oil industry will be the greatest contributor to creating a stable development, new centres of expertise and higher revenues for the local communities.

The region's future will be created through those who are young today. By strengthening relevant education trends and creating interesting and varied jobs, the youngest generations will find it challenging to establish a career in Northern Norway. In this way the region will hold on to and attract new talent and expertise. It will give the petroleum industry an opportunity to build strategic functions, and to create regional growth.

Photo: Anne Lise Nordheim – Halliburton

Growth in other sectors

The petroleum activities will contribute to growth in other sectors as well, since the industry is dependent on well-developed infrastructure and a broad range of services for employees and their families. Roads, mainland connections, and air services are decisive for ensuring efficient transport. The same applies to a good and stable supply of power, which modern industry is dependent on. Overall this will make Northern Norway competitive.

With increased competitiveness, the municipalities and county authorities' revenues will also increase. This will provide a higher standard of living through better solutions in health and social care services, education and culture.

Permanent effects

Northern Norway already has a number of strong industry clusters, industrial enterprises and educational institutions. North Energy spends much of its time on identifying and developing potential opportunities. Northern Norwegian companies are in the forefront with regard to emergency preparedness technology, for example. We believe in utilising the local expertise that already exists in the Northern Norwegian emergency preparedness model, where the fishing fleet is of key and decisive importance.

We know that oil activities in the North are dependent on dialogue and broad support, and we will do our part in this context. In this way we will help realise the region's potential and create wealth.

Health, safety and the environment

Good HSE performance is a prerequisite for creating long-term value. Our goal is to prevent accidents and injuries.

Working environment

In 2010, North Energy performed health, safety and environmental (HSE) activities in compliance with its HSE programme for the year. This includes, for example, ergonomic advice at the offices, first aid courses and a comprehensive employee survey as tools for mapping and further developing the organisation into an even more efficient and better workplace. Three working environment committee (AMU) meetings were held and an employee representative has been elected to the company's Board of Directors.

The total absence due to illness was 0.8 per cent in 2010. The trend throughout 2010 showed falling absence due to illness, and, compared with 2009, absence due illness has been reduced by 50 per cent. The company will continue to safeguard the health of the staff by providing training facilities, physiotherapy, etc. No workplace accidents have occurred or been reported during the year.

The company has appointed a working environment committee, and a meeting schedule has been established for the committee. Collaboration with union officials has been constructive and made a positive contribution to the company's operations.

Follow-up of the "supervisory obligation" and HSE activities in self-operated licences

The company has complied with the "supervisory obligation" for the licences where drilling has been proposed (Fogelberg and Stirby) and actively participates in other partner licenses, and especially in licenses where drilling is planned.

In connection with environmental analyses and emergency preparedness assessments related to the operatorship of PL 526 Vågar, the company, has, together with a team of experts, made two trips (Lovund to Steigen) in the summer of 2010 and documented areas and locations of natural and cultural significance. In addition, North Energy established three projects together with Statoil in 2010, one of which will analyse the regional business effects, population and move-back potential, as well as the development of the employment market for petroleum development in Lofoten, Vesterålen and Troms II. This is a continuation of North Energy's project related to technological development solutions and opportunities for bringing petroleum ashore, as well as the environmental and social consequences of petroleum activities in the same area. In the autumn of 2010, the company also conducted several meetings (dialogue conferences) with fishermen and fishing organisations in order to strengthen the dialogue and knowledge base between these parties. In 2011 North Energy will still be available as a dialogue partner for the fishing organisations and other business interests in questions related to the shared use of resources outside Lofoten and Vesterålen.

Further development of the company's management system – preparation of own operations

As a continuation of work on the management system in 2009, North Energy has developed this as a foundation for its own drilling in 2010. In this connection, a framework agreement was entered into with Oddfjell Well Management AS in the autumn of 2010 in order to help North Energy build up competence and documentation for the drilling of wells on the Norwegian continental shelf. Completion of the formal work on the management system and internal procedures is expected in the second quarter of 2011. The project affects all areas of the organisation and is quality assured through a separate management committee. There is a particular focus on including processes and guidelines related to risk and operations management, including the experience gained as a result of the Macondo accident. This will be safeguarded in the relevant drilling documentation.

Photo:

An active year for business development

Photo: Thomas Bjørnflaten

North Energy is actively working on business development activities to strengthen the exploration portfolio and improve the portfolio's risk profile. In order to achieve this, the company's overall strategy is to acquire licences with prospects that are situated close to infrastructure and with a high likelihood of success.

This is best achieved through known models for exploration around infrastructure where surplus capacity will be available in a few years. A good example of this is the Fogelberg discovery in March 2010 in PL 433, around 18 km north of the Åsgard field. The discovery is assumed to be commercial. PL 433 was acquired in 2009 from Centrica, who is the operator of the licence.

The PL 341 Stirby acquisition was carried out in the course of the year. The main prospect in this exploration well was not found, but there were indications of gas in the deeper part of the well, which has not been found to be commercially viable.

North Energy will continue to evaluate high quality acquisition opportunities, and sell-offs and swaps will also be evaluated to balance the risk and financial exposure of the portfolio.

North Energy's strategy is to realise the value of discoveries by participating in development and production, or through sales, if the value of the discovery can be realised at an earlier stage so that the resources can be reinvested in exploration or other developments.

The discovery in PL 433 will be assessed continuously on the basis of this strategy. A positive development has been observed over the course of the year as the project has continued to mature.

In March 2011, North Energy signed an agreement with Wintershall Norge ASA to acquire a 10 per cent interest in the licences PL 370 and PL 370B Kakelborg. At the same time, North Energy will take over Wintershall's 20 per cent interest in licence PL 385 Jette.

A growing organisation

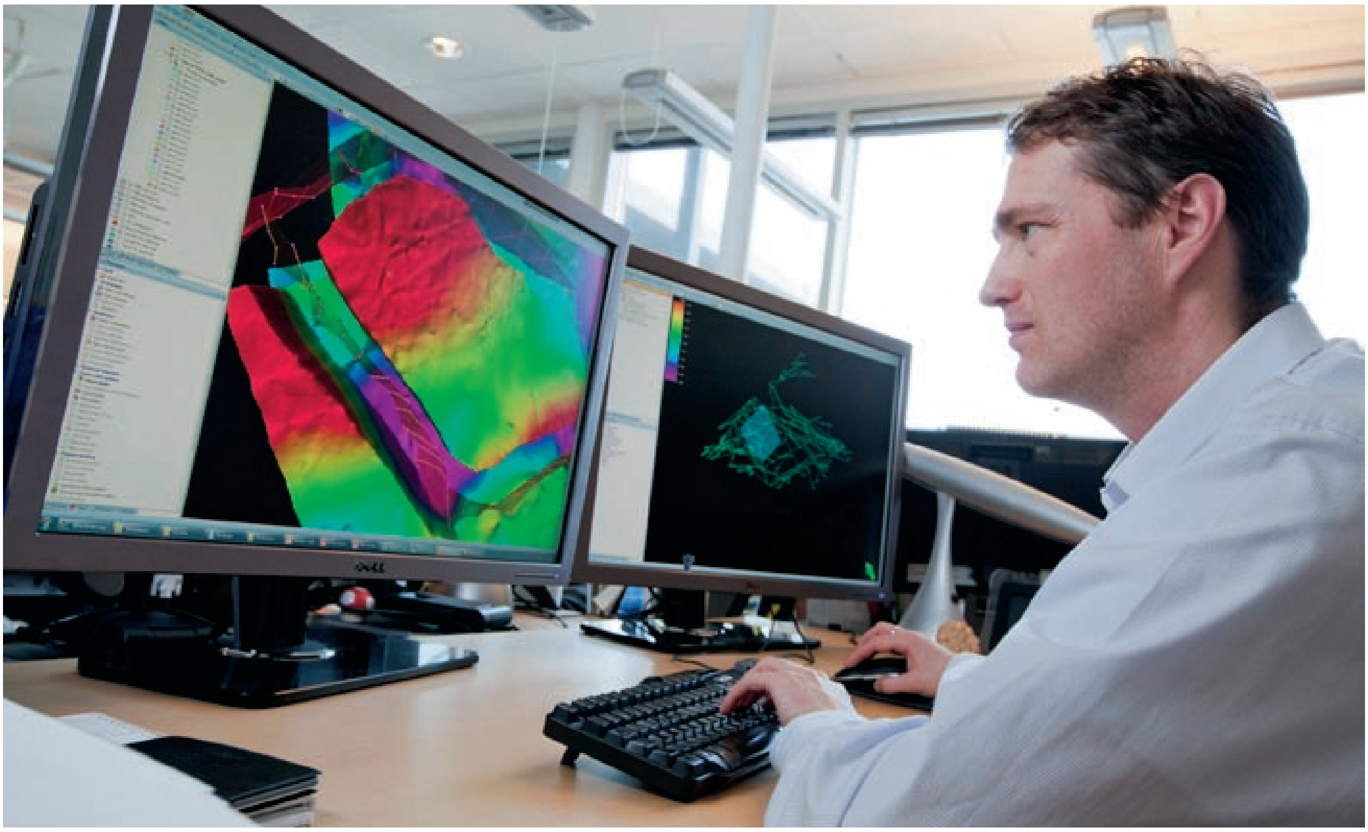


Photo: Thomas Bjørnflaten

North Energy is growing. We focus on expertise and diversity when building up our organisation. Motivated employees with the right knowledge and experience are important prerequisites for achieving our goals.

The number of employees at North Energy has increased during this period. At the beginning of 2010, the company had 38 employees, compared with 43 at the end of the year. In addition, the company hired five consultants to strengthen the exploration activities. Female representation in the company is 30 per cent. A total of 67 per cent of the employees work in exploration and operational activities, while the remaining 33 per cent work in support functions.

North Energy has a multicultural working environment, and 10 nationalities are represented within the company.

Throughout 2010, the company has focused on building up the organisation in order to strengthen the exploration activities and operational aspects with a view to active operatorship. Further development is anticipated, primarily in the first half of 2011.

The company has a high level of satisfaction, which is confirmed by the working environment survey that was conducted in 2010. A new survey will be conducted in 2011. Absence due to illness was at an acceptable level in 2010, and it was at a modest 0.8 per cent. Continuous measures are considered and carried out to follow up and improve the employees' physical working environment, and adaptation of the individual employee's workplace has been prioritised. Encouragement of physical activity through measures where the company supports training activities has also been well received by the employees.

The balance between work and leisure is seen as very important. The company endorses, therefore, flexible working hours.

Expertise

Cooperation has been established with the University of Tromsø with a view to strengthening the geological and geophysical expertise in Northern Norway. On the basis of this cooperation, a new office has been established in Tromsø that is staffed by experienced geophysicists in order to draw on cooperation with the university. The recruitment of master's students and project cooperation will contribute to strengthening both parties.

The Management of North Energy ASA

Name: **Erik Karlstrøm**
Title: **Managing Director**

Erik Karlstrøm is the managing director and was the first employee of the company. Karlstrøm came from the German RWE Group, where he worked for 20 years; during the last period he was vice-president of RWE Egypt, with responsibility for exploration. As exploration manager in Egypt, Karlstrøm was directly involved in a number of discoveries of gas in the Nile Delta. Previously Karlstrøm worked for six years at Mobil in the USA and Stavanger. Karlstrøm has also been the head of the exploration committee of the Norwegian Oil Industry Association (OLF). Karlstrøm graduated as an engineer in geophysics at the Norwegian Institute of Technology (NTH) in Trondheim, and is originally from Talvik in Alta.

Name: **Knut Sæberg**
Title: **CFO**

Knut Sæberg was appointed CFO in March 2009 and is responsible for the company's financial functions. Prior to this, Sæberg was CFO in the Optimera Group, where his areas of focus were restructuring and acquisitions and disposals of businesses. Sæberg was previously CFO of NMD ASA and was a key figure in the restructuring of the company in the wake of the deregulation of the pharmaceutical market. From 1984 to 1995 he held various positions in Shell, and was directly involved in the establishment of the business organisation connected to the Troll project. Sæberg graduated in economics and business administration from Kristiansand in 1984.

Name: **Siw Sandvik**
Title: **Communications Manager**

Siw Sandvik has been manager of communications at North Energy since October 2010. She has long and extensive experience in her field. Sandvik worked in communications at Widerøe for 20 years and has also worked for SAS for five years in customer relations. Her strength is communications and information work in large organisations. She has experience in building relationships with the media and has currently a good network within the media in Norway. Siw Sandvik graduated in information and public relations from the BI Business School.

Name: **Lars Tveter**
Title: **HSE Manager**

Lars Tveter is the manager for health, safety and environment (HSE), and has been at North Energy since its inception. Prior to this, he was manager of Aibel's operations in Libya. Tveter began his career as a process engineer at Kværner Engineering. From 1980 to 1990 he held various positions in R&D, petroleum technology, operations and HSE at Total. He has been staff manager of Dolphin Drilling and HSE manager of Hitec Dreco. Between 1994 and 2008, Tveter was responsible for international business development in Aibel. He has worked abroad for several periods in Argentina, France, Egypt and Libya. Tveter graduated as an engineer from the Norwegian Institute of Technology (NTH) in Trondheim, and has an MA in international management from BI Business School in Oslo.

Name: **Astrid Tugwell**
Title: **Development Manager**

Astrid M Tugwell joined the company as development manager in February 2008. Tugwell has a solid background in reservoir development and has also held positions in finance, planning, licence management and project management. She started her career in the Norwegian Petroleum Directorate before joining Shell International and later Norske Shell. During this time she took part in a number of European and Norwegian projects, from drilling to the development of mature fields, including participation in the development of the Ormen Lange gas field. Her last position at Shell was development manager of the Draugen field in Haltenbanken. Tugwell comes from Øksfjord in Loppa and graduated as a petroleum engineer from Strathclyde University in Glasgow.

Name: **Marion Høgmo**
Title: **Administration Manager**

Marion Høgmo has been administration manager since April 2008, with particular responsibility for HR and administrative processes. Her specialities are organisation, finance, development and management. From 2000 to 2008 she was a bank manager at Sparebank 1 Nord-Norge and Nordea. Høgmo has studied economics, management and education at Finnmark University College, law at the University of Oslo and administration and management at Buskerud University College.

Name: **Vigdis Wiik Jacobsen**
Title: **Portfolio Manager**

Vigdis Wiik Jacobsen is the portfolio manager of North Energy. She has worked in exploration in Norway and internationally for over 30 years. From 2001, Jacobsen participated in the creation of Gaz de France Norge, and was responsible for exploration activity on the Norwegian continental shelf. From 1983 to 2001 she worked primarily in exploration in Statoil, first as exploration manager for the Norwegian continental shelf and later as vice-president for exploration in the Caspian Sea. Jacobsen has also headed the exploration committee of the Norwegian Oil Industry Association (OLF). Jacobsen began her career in the Norwegian Petroleum Directorate and has an MA in geology from the University of Oslo.

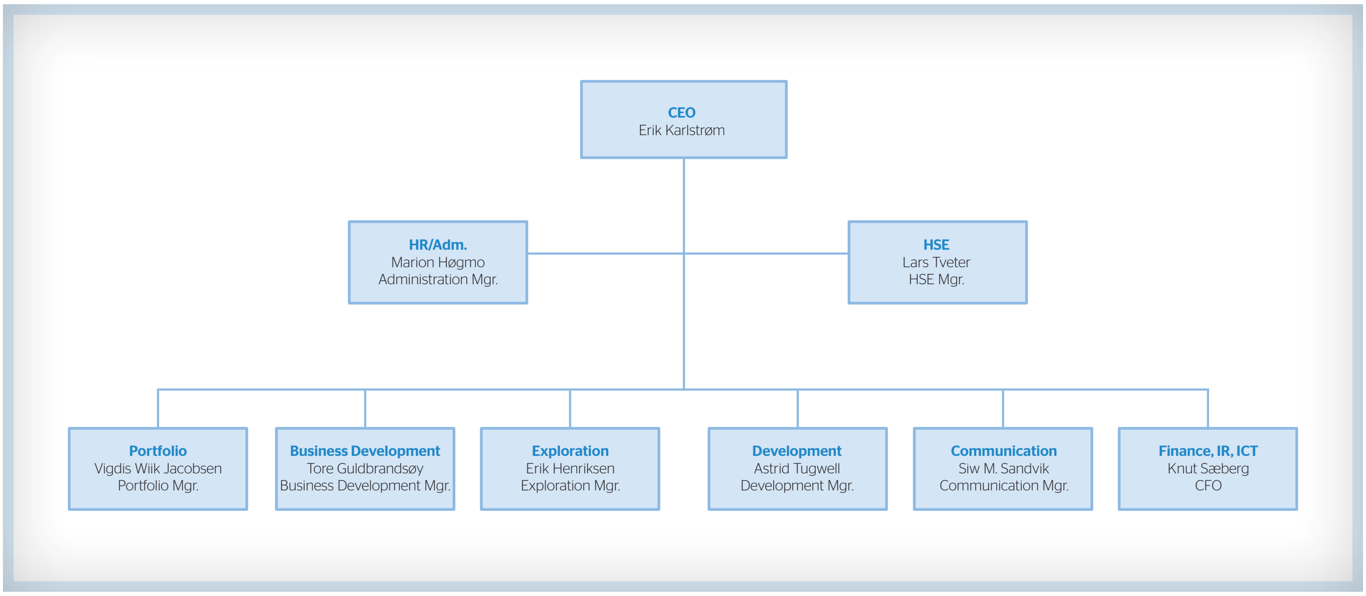
Name: **Erik Henriksen**
Title: **Exploration Manager**

Erik Henriksen was appointed exploration manager on May 1, 2011. His previous position was with Statoil as project manager and exploration manager for the northern areas. He also has strong ties to the University of Tromsø, where he is an adjunct professor, teaching petroleum geology. Erik Henriksen is originally from Narvik, has a degree in geology, and worked for 20 years at Statoil and two years at the Norwegian Petroleum Directorate. He has experience from the entire Norwegian continental shelf, from Sentralgraben in the south to the Barents Sea in the north. For the last ten years, Erik Henriksen has been working internationally as exploration manager for Eurasia with particular focus on Russia, Kazakhstan and Azerbaijan. Most recently he has been project manager for exploration projects in the northern areas. He played a key role in the «Barents Sea Project», in which the government in 1997 awarded important seismic contracts to oil companies to increase interest in the area. As the sector manager for the Barents Sea, he also has experience from the so-called «drilling campaign» in the Barents Sea.

Name:
Tore Henrik Guldbrandsøy
Title: **Business Development Manager**

Tore Henrik Guldbrandsøy is the business development manager of North Energy. He has worked in the oil industry for 22 years, and has extensive international experience from BP, Statoil and 4sea energy from various countries: Norway, the UK and Vietnam. He has held technical and commercial positions and has worked both onshore and offshore in leading positions. He was previously business development manager of 4sea energy and business development project manager at Statoil. Guldbrandsøy obtained an MSc in petroleum engineering from the Norwegian University of Science and Technology (NTNU) in Trondheim in 1988.

Management, organisation chart



Investor information

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

Owners

North Energy was listed on Oslo Axess in February 2010. After the listing the ownership interests in the company were distributed by geographic region as follows:

1. Northern Norway	45 per cent
2. United Kingdom	25 per cent
3. Southern Norway	20 per cent
4. Other Europe	10 per cent

Shareholder composition

As at 31 December 2010 the company had 1,019 individual shareholders. The twenty largest shareholders represented 63 per cent of the share capital. Around 45 per cent of the capital is owned by investors affiliated with Northern Norway, while 35 per cent is owned by foreign investors and 20 per cent by investors affiliated with Southern Norway. Employees and board members owned a total of 9.1 per cent of the shares. North Energy's goal is to work actively to maintain a high level of North-Norwegian ownership.

North Energy's 20 largest shareholders

Shareholder		Number of shares	%
1	UBS AG, London Branch	2 446 500	9.7
2	SKS Eiendom AS	1 824 920	7.3
3	JPB AS	1 350 000	5.4
4	Origo Kapital AS	1 248 100	5.0
5	Onshore Group Nordland AS	933 340	3.7
6	IHM Holding AS	739 929	2.9
7	Skandinaviska Enskilda Banken	645 300	2.6
8	Kapnord Fond AS	640 000	2.5
9	Alta Kraftlag AL	600 230	2.4
10	The Northern Trust Co.	564 900	2.2
11	IKM Industri-invest AS	545 648	2.2
12	State Street Bank & Trust Co.	536 008	2.1
13	Morgan Stanley & Co. Internat. PLC	531 227	2.1
14	Ninerik AS	516 735	2.1
15	Bank of New York Mellon SA/NV	500 000	2.0
16	Caceis Bank	484 670	1.9
17	The Northern Trust Co.	442 204	1.8
18	DnB NOR SMB	435 000	1.7
19	Leonhard Nilsen & Sønner AS	431 210	1.7
20	First Securities AS	425 000	1.7
1-20	Total	15 840 921	63.0

Share on Oslo Axess

North Energy ASA (ticker code "NORTH") shares were registered on Oslo Axess on 5 February 2010 after a successful capital increase. The shares were listed at an opening price of NOK 26.50 per share, which corresponds to a market value of NOK 667 million. The price fell by 14 per cent during the year, to a closing price on 31 December of NOK 22.80 per share. In comparison the benchmark index, the Oslo Børs Energy Index, increased by 8 per cent during the same period. The company's market capitalisation at the end of the year was NOK 573.4 million, divided into 25,149,736 outstanding shares.

The share's performance has varied throughout the year with regard to the return, number of trades and volume.

The company has only one class of share with each share giving one vote at the company's General Meeting.

North Energy has not paid any dividend to shareholders previously and is not expecting to pay any dividend in the near future, however, the company has a goal of ensuring a good return over time by creating value and making the value potential more visible and thus contributing to a positive price performance for the share.

A number of analysts follow the company's shares on a continuous basis, and a summary with contact details can be found at www.northenergy.no/investor

Analyst coverage

- First Securities
- Argo Securities
- RS Platou Markets
- Pareto
- SEB

Directors' report 2010

Business activities

North Energy ASA was established on 4 September 2007. The object of the company is to become a leading oil and gas industry player in Northern Norway through exploration and production based in the Norwegian Sea and Barents Sea.

North Energy's head office is located in Alta, and it has a branch office in Oslo. Smaller offices with regional expertise have also been established in Stavanger, Bergen, Bodø, Tromsø and Honningsvåg.

Important events

North Energy was listed on Oslo Axess on 5 February 2010. Prior to the stock exchange listing, the company raised NOK 350 million in the form of new equity after a share capital increase was adopted at the Extraordinary General Meeting of 21 January. This was to fully finance a drilling programme consisting of eight wells.

In addition, North Energy acquired all the shares in the company 4sea energy AS, which had ownership interests in two exploration licences in the North Sea, in February 2010. This company also supplied capital of NOK 50 million and contributed two experts that were well-adapted to the expertise required by North Energy. Shares in North Energy ASA with a total value of NOK 50 million were issued as consideration for the shares in 4sea energy AS,

North Energy started drilling at PL 433 Fogelberg as a partner with a 12 per cent ownership interest in the licence in February 2010. At the end of March 2010 the discovery of hydrocarbons in the licence was announced. Extensive analysis and tests were performed throughout 2010, and we are working now on a more formal start-up of the Plan for Development and Operation (PDO) process after the need for possible appraisal wells is clarified. Our goal is to make a conclusion in the middle of 2011 whether work on a PDO can continue without drilling additional wells.

In October 2010, North Energy acquired 11 per cent of PL 341 Stirby in the North Sea. The drilling had already started then, and in November hydrocarbons were proven in the deeper portion of the well. This deposit was declared sub-commercial in December, due primarily to tight formations. Assessments are being made now of the shallower main reservoir, which was not hit by the well, as well as other possible prospects in the licence.

PL 433 Fogelberg and PL 341 Stirby are licences where North Energy has acquired interests from other companies.

North Energy was allocated five new licences through the APA 2010. Two of these are in the Barents Sea, two in the Norwegian Sea and one in the North Sea. Of the two in the Norwegian Sea, North Energy was allocated one operatorship. The licence allocations represented a jackpot with respect to the company's application, and the Board of Directors perceived the good allocations to be recognition of the expertise the company has built up around the core areas in the North. In addition, the allocations also value the company's competence as an operator.

In March 2011, North Energy acquired a 10 per cent interest in PL 370 Kakelborg and increased its interest in PL 385 Jette from 15 per cent to 35 per cent. With this transaction, North Energy has built up a portfolio of 21 licences, 8 of which are in the Barents Sea, 7 of which are in the Norwegian Sea, and 6 of which are located in the North Sea.

Beyond management of the allocated licences and adaptation of the exploration portfolio, the main focus in 2010 has been on surveying the exploration areas in connection with the APA 2010, as well as the 21st licensing round.

North Energy is embarking on a year with a significant increase in the exploration activities. Through the capital increase that took place in February in combination with an exploration loan, the original exploration programme has been fully financed. In order to adapt the exploration loan facility to the drilling programme for 2011 and 2012, the company organised a competitive tendering process in 2010, in which Norwegian and foreign banks were invited to tender. There was a great deal of interest in the competitive tendering, and DnB NOR and SEB Enskilda formed a syndicate to back the exploration loan facility of NOK 760 million, which was formalised in December. DnB NOR leads the syndicate. BNP Paribas has subsequently become a member of this syndicate of banks.

Since the establishment of the company, North Energy has sought to contribute to increasing the creation of value regionally and good industrial solutions. Throughout 2010 and 2011 North Energy has focused on these efforts in relation to the fishing interests in Lofoten and Vesterålen in order to contribute expertise with respect to obtaining new knowledge and establishing a growing understanding of the shared responsibility for stewardship that lies with all the members of the business community in this vulnerable area. In addition, the company has contributed to documenting the correlation between more oil and gas activities in the North and Norway's future as an energy nation.

It is a great challenge to work with the distribution of factual information with respect to an issue where the national and local media focus on feelings and contradictions. In this minefield, many external entities create a profile through continuous attempts to polarise any issues that exist between the petroleum industry in Lofoten and Vesterålen (LoVe) without placing the region in a comprehensive national context.

The bridge-building role that is part of North Energy's core values has come to the forefront throughout 2010 by virtue of the dialogue the company has had with the local fishermen. The so-called "Øksnes Requirements", which have attracted local and national attention, are a direct result of this work. In this document, the focus is not only on what the energy industry can contribute locally and regionally, but also what challenges and risks must be minimised before any activity can be established. In addition, measures are being discussed for how other businesses in the region can be strengthened. The objective of this activity is to create a basis for broad support in Northern Norway for more oil and gas activities.

Continuation as a going concern

In accordance with Section 3-3a of the Norwegian Accounting Act, it is confirmed that the prerequisites for continued operations have been met. This assumption is based on the company's financial situation, forecasted results for the year 2011 and the company's long-term strategic forecast for the coming years.

Future developments

The Board of Directors has a positive view of the basic outlook for the upstream market in the oil and gas industry.

Since the company was established in 2007, North Energy's main goals have been related to building up a strong organisation, allocation and acquisition of good licences, completion of an exploration programme and the subsequent investment in development and production. North Energy's goal is to contribute to the local creation of value as the oil activities gradually move northwards. This can best be achieved by the company having operatorships in licences that are in an active phase with regard to drilling, development and production. North Energy has, therefore, started to build up the necessary expertise and systems related to such a role throughout 2010.

North Energy increased its capital base in February 2010 by NOK 400 million. Together with the exploration loan facility that was negotiated with DnB NOR, SEB Enskilda and BNP Paribas, the original drilling programme for eight wells has been fully financed. In this programme, two wells have been completed and six wells consequently remain. Of the remaining six wells, three will be drilled in 2011 and three will be drilled in 2012.

The drilling programme will start with PL 535 Norvarg in the second quarter of 2011 and continue with PL 530 Heilo and PL 518 Ypsilon. All of these wells will be drilled in the Barents Sea, where North Energy has emerged as a substantial player. The drilling programme for 2012 consists of PL 385 Jette in the Norwegian Sea and PL 498 Skagen and PL 370 Kakelborg in the North Sea.

North Energy intends to participate actively in future licensing rounds. Based on our good exploration expertise and strong financing, we have high ambitions for good allocations. The Board of Directors is concerned about the continuation of efforts to strengthen and optimise the portfolio, and the company will, therefore, still assess opportunities for the acquisition and sale of licences.

North Energy is actively seeking a sustainable opening of the promising exploration area outside Lofoten and Vesterålen. The company has participated in studies that can contribute to the opening of vulnerable coastal areas with new technology without any conflicts with the local interests.

Since the company was established, North Energy's ambition has been to play a role in the development of the northern regions. As a result of the consensus that has been reached between Norway and Russia concerning the disputed area in the Barents Sea, this development may come earlier than first assumed. North Energy will, therefore, continue to build up its competence and position itself in this area.

Forward-looking statements in this portion and the rest of the Board of Directors' report reflect the current view of future circumstances, and are, of course, associated with significant risk and uncertainty, because they concern and are dependent on events or circumstances that take place in the future.

Comments on the annual financial statements

The company does not have any revenues. The loss before tax was NOK 279.8 million in 2010, compared with a loss of NOK 208.4 million in 2009. The earnings performance reflects a development phase in which the number of licences has increased from eight in 2009 to fourteen at the end of 2010. The licence and exploration costs account for most of the financial results. These costs have increased from NOK 113.1 million in 2009 to NOK 177.1 million in 2010. The personnel costs were NOK 61.5 million in 2010, compared with NOK 62.4 million in 2009.

The loss after tax was NOK 62.6 million in 2010, compared with a loss of NOK 64.4 million in the previous year.

Of the balance sheet total of NOK 635.2 million, equity accounts for NOK 480.5 million. This gives a year-end equity ratio of 75.6 per cent. The company strengthened its equity by NOK 350 million through a public offering that was completed in February 2010. In addition, North Energy has strengthened its capital base through the acquisition of 4sea energy AS in February 2010.

Of the balance sheet assets, the tax claim from the refund scheme is valued at NOK 342.6 million. This is an increase from NOK 149.0 million in 2009. In addition, the company's cash and cash equivalents increased from NOK 45.7 million in 2009 to NOK 49.4 million in 2010. North Energy participated in the drilling in PL 433 Fogelberg in the first half of 2010. A discovery was ascertained, and the drilling costs were capitalised in the amount of NOK 110 million. The company did not have any interest-bearing loans at the end of the year. North Energy negotiated a new and expanded exploration loan facility in the autumn of 2010. The loan facility limit is NOK 760 million kroner, and

DnB NOR, Svenska Enskilda Banken and BNP Paribas are behind it, with DnB NOR leading the syndicate of banks.

The cash flow from the operating activities in 2010 has been NOK –32.1 million, compared with NOK –80.8 million in the previous year. The investment activities have entailed a negative cash flow of NOK 214.0 million, which is an increase of NOK 199.2 million over 2009. The net cash flow from financing activities in 2010 totalled NOK 286.5 million, compared with NOK 128.0 million in 2009.

The Board of Directors considers the company's financial position to be satisfactory.

Risk assessments

Overall objectives and strategy

The company is exposed to financial risk in various areas. The foreign exchange risk is, however, low, since borrowing and contracts denominated in foreign currencies is limited. Increased exposure in these areas is, however, planned in the coming years. The aim is to reduce the financial risk to the greatest possible extent. The company's current strategy does not entail the use of financial instruments, but this is subject to continuous evaluation by the Board of Directors.

Foreign exchange and market risk

North Energy does not participate in fields in production and is thus not exposed to major oil price fluctuations. The company has not entered into futures contracts or other agreements in order to reduce the company's foreign exchange risk and thereby the operational market risk.

Interest rate risk

The company is exposed to fluctuations in interest rates, since most of the company's debt has adjustable interest rates. In addition, changes in the interest rate can affect investment opportunities in future periods.

Credit risk

The risk of bad debts is considered low, as in this phase the company's receivables are primarily from the Norwegian government in connection with the tax value of exploration costs.

Operational risk

North Energy is a company in which the operational risk is closely associated with the company's expertise. The company focuses, therefore, on competence development, organisational development and management systems. In addition, as an exploration company, North Energy will be dependent on political willingness to exploit resources in interesting areas.

HSE

Total absence due to illness for 2010 was 0.8 per cent. This entails a 50 per cent reduction in absence due to illness compared with 2009. The company will continue to safeguard the health of the staff by providing training facilities, physiotherapy, etc. We focus in particular on working postures and the prevention of typical strain injuries in an environment distinguished by monitors and long work days in a sitting position. No workplace accidents have occurred or been reported during the year. Striking a good balance between work and leisure is considered important. The company endorses, therefore, flexible working hours. The company has appointed a working environment committee and established a meeting schedule. Collaboration with union officials has been constructive and made a positive contribution to the company's operations.

The Board of Directors considers the working environment to be satisfactory, which is also confirmed by employee surveys.

North Energy's activities in 2010 pollute the external environment only to a limited extent. The biggest factor is air travel, and in this connection the company uses modern voice and conferencing to a great extent between the offices to limit travel. The operations do not use environmentally harmful chemicals or generate dust or noise.

The company's offices are in a new building at Kunnskapsparken in Alta, which is equipped with an energy-saving time-controlled ventilation system. The heating system has time-controlled night time temperature reduction and lighting. All waste is sorted.

Throughout 2010 the company has participated as a partner in connection with exploration drilling in PL 433 Fogelberg, which ended in April, and PL 341 Stirby, which ended in December. The operations were completed without any reported personnel injuries or pollution of the external environment. North Energy has in this connection discharged its supervisory obligation in accordance with the regulatory requirements.

Personnel resources and equal opportunities

North Energy had 43 employees at the end of the year. This represents growth of five persons compared with 2009. In addition to the employees, five consultants have been hired to reinforce the company's exploration activities.

North Energy has a multicultural working environment, and 10 nationalities are represented within the company. When new employees are recruited, North Energy will continue to facilitate diversity with respect to, but not limited to, gender, cultural background and experience. Remuneration is determined based on the content of the work duties and the employees' qualifications. The management team's remuneration is described in notes to the financial statements.

North Energy aims to be an employer where there are equal opportunities for women and men. The company has a policy of no discrimination due to gender.

The company's workforce consists of 30 per cent women. The management team consists of eight persons, three of whom are women, while the Board of Directors consists of eight shareholder-elected representatives and one employee-elected representative. In addition, the Board of Directors has one observer from the company's employees. Three of the shareholder-elected board members are women.

The company will continue to focus on equal opportunities between men and women and would like to maintain a high percentage of women in executive positions.

Ownership

North Energy's capital base and ownership was expanded significantly through the new issue completed in February 2010 and the acquisition of 4sea energy. As a result of this, North Energy has had around 1000 shareholders throughout 2010. Most of the company's shareholders are still in Northern Norway, but there are also significant ownership environments in London, Oslo, Stavanger and Helsinki.

Corporate governance

Corporate governance is the Board of Directors' most important tool for ensuring that the company's resources are managed in the best possible manner and contribute to the long-term creation of value for the shareholders. An extensive process was carried out prior to the company's listing on Oslo Axess to ensure that the company was in full compliance with the Norwegian Code of Practice for Corporate Governance. The Board of Directors makes reference in this context to the special statement on the company's corporate governance in the Annual Report for 2010.

Allocation of profit/loss for the year

The company does not have any distributable reserves at year end. The Board of Directors proposes that the loss for the year of NOK 62.6 million be transferred to uncovered losses.

Alta, 12 April 2011

Johan Petter Barlindhaug
Chairman

Leif W. Finsveen
Board member

Kristin Ingebrigtsen
Board member

Arnulf Østensen
Board member

Jørn Olsen
Board member

Guri H. Ingebrigtsen
Board member

Heidi Petersen
Board member

Hans Kristian Rød
Board member

Ole Njærheim
Board member

Erik Karlstrøm
CEO

Corporate governance

An appropriate and clear distribution of roles between the Board of Directors, management and shareholder community contributes to building trust between the various stakeholder groups.

As a company listed on Oslo Axess, North Energy is required to prepare an annual statement on how the company has organised itself pursuant to the current Norwegian Code of Practice for Corporate Governance. The statement below follows the structure of the Norwegian Code of Practice for Corporate Governance, and any non-conformity with this code will be explained under each section.

1. Statement on corporate governance

North Energy practises corporate governance in compliance with Norwegian company law and the Norwegian Code of Practice for Corporate Governance, last revised on 21 October 2010.

North Energy's decisions and actions shall be based on the company's core values:

- To be at the forefront
- To be competent
- To be a bridge-builder
- To be a fearless voice in the North

It is the task of the management to ensure that the areas of responsibility are given priority, individually and combined, based on North Energy's core values and in compliance with the Norwegian Code of Practice for Corporate Governance. The company has prepared ethical guidelines and guidelines for corporate social responsibility. These guidelines are available on the company's website.

2. Business activities

North Energy shall manage operations involving the exploration, development and production of oil and gas on the Norwegian continental shelf and the Russian side of the Barents Sea, and own or participate in companies that manage equivalent operations, including through subsidiaries. The company's vision is to develop a leading and profitable oil and gas company that actively contributes to the development of industrial assets in the North. This is to be achieved by means of the following main strategies:

- Acquisition and allocation of the best licences in the Norwegian Sea and the Barents Sea.
- Ensuring an adequate capital base to finance the company through exploration, development and production.
- Ensuring access to good investment opportunities by being an attractive partner for the authorities and leading oil companies.
- Being a credible and confidence-inspiring partner for important stakeholders, such as suppliers, the fishing industry and environmental groups.
- Establishment of a foundation for long-term value creation and ripple effects in the North.

North Energy has a clear framework for its business activities in its Articles of Association, while visions, goals and strategies are embedded in the company's management system. This has been specified in greater detail through work in advance of the company's stock exchange listing, which took place in February 2010. In addition, the management has worked actively throughout the year to prepare the company for operator tasks on the Norwegian continental shelf. This has resulted, for example, in more detailed specifications in the management manual for North Energy.

3. Share capital and dividends

Since its establishment in 2007, North Energy has been purely an exploration company without any revenues. The company's activities are financed through equity. North Energy has not paid any dividend and is not expected to pay any dividend for the next few years.

4. Equal treatment of shareholders and transactions with close associates

If North Energy is party to a transaction with a party closely related to the company or with companies in which board members or senior executives or their relatives have a direct or indirect significant interest, the parties involved must immediately report this to the Board of Directors. Any such transaction must be approved by the Chief Executive Officer and the Board of Directors and, when required, it must also be reported to the market. North Energy has not invested in any treasury shares in 2010.

5. Free negotiability

Shares in North Energy are listed on Oslo Axess. All shares are freely negotiable. There are no restrictions stipulated in the Articles of Association concerning the negotiability of the shares.

6. General Meeting

The company's General Meetings in 2010 were held in compliance with Norway's Limited Companies Act. The General Meeting resolved in December 2009 to convert the company to a public limited company (ASA). After that time, Norway's Public Limited Companies Act formed the basis for conducting General Meetings.

The General Meeting is North Energy's highest decision-making body. The Board of Directors endeavours to ensure that the General Meeting is an effective forum for communication between the Board of Directors and the company's shareholders. Arrangements are therefore made on the part of the Board of Directors for the best possible participation of the company's shareholders at the General Meetings. Meeting notices and agenda papers are made available on the company's website no later than 21 days before the General Meeting. In addition, provisions will be made for voting in advance at the company's General Meeting.

The Board of Directors sets the agenda for the General Meeting. However, the most important items on the agenda are listed in the Public Limited Companies Act and the company's Articles of Association.

7. Nomination Committee

The Nomination Committee's duties are to submit a reasoned recommendation to the General Meeting concerning the election of shareholder-elected members to the Board of Directors and to nominate a chairman and deputy chairman. The Nomination Committee shall also submit a proposal for directors' fees and nominate members to the Nomination Committee. Establishment of a Nomination Committee is stipulated in the Articles of Association and regulated by instructions from the General Meeting.

Remuneration of the Nomination Committee is a fixed sum that is not based on performance. The General Meeting is the decision-making body for all recommendations submitted by the Nomination Committee.

8. Corporate Assembly and Board of Directors, composition and independence

North Energy has chosen not to have a Corporate Assembly.

The organisational structure of the Board of Directors is in compliance with the Public Limited Companies Act and is composed of three women and five men, all of whom have broad experience. Four of these directors have been elected independently of the company's shareholders. In addition, one board member and one observer have been elected from among the company's employees. None of these members are part of the company's management. The board members represent both industry-specific expertise and professional expertise from national and international companies.

According to North Energy's understanding, all board members are independent of the company's management and essential business associates. At present, three of the board members own shares in North Energy directly or indirectly. None of the board members possess options to buy more shares.

9. Work of the Board of Directors

The work of the Board of Directors is governed by the rules of procedure for the Board of Directors. In principle, this work consists of supervising North Energy, including establishment of the company's strategy and overall objectives, adopting action programmes and ensuring a prudent organisation of the business activities in accordance with the company's Articles of Association. The Board of Directors can also establish guidelines for the business activities and issue instructions on individual matters. The Board of Directors shall safeguard North Energy's interests as a whole and not act as individual shareholders.

There is a clear division of responsibility between the Board of Directors and the day-to-day management. The Chief Executive Officer is responsible for the operational management of the company and reports regularly to the Board of Directors.

The management is responsible for the preparation of items for inclusion on the agenda for board meetings. It was resolved in 2010 that the duties of the Audit Committee would be performed directly by the Board of Directors.

The Board of Directors evaluates its work, competence and performance on an annual basis.

A total of 13 board meetings were held in 2010 and attendance at these meetings varied between 75 and 100 per cent.

10. Risk management and internal controls

North Energy's business activities are subject to a management system that encompasses all areas within which the company operates. The management system is divided into three levels. Level 1 describes the company's visions, goals, strategies and organisation. Level 2 describes business processes, while level 3 describes the necessary work instructions and other specified supporting documentation. Throughout 2010 North Energy has focused in particular on updating the management system and governing documentation.

The company's management team monitors, on a daily basis, situations in which the company has a financial risk and reports on this to the Board of Directors. Exceptions are systematically monitored and corrective measures are implemented.

The company's reports to the Board of Directors stress both the ongoing risk associated with the day-to-day operations and risk associated with the investment opportunities that are presented. In addition to the management's assessments of the risk areas to which the company is exposed, the auditor's assessments are also presented to the Board of Directors.

11. Remuneration of the Board of Directors

The Nomination Committee submits a proposal for the remuneration of the board members to the General Meeting. This proposal takes into consideration the responsibilities, qualifications, consumption of time and complexity. None of the board members have duties in the company apart from that which is evident from this report.

12. Remuneration of senior executives

The Board of Directors stipulates the Chief Executive Officer's salary, taking into consideration the responsibilities, qualifications, complexity and results achieved. The Board of Directors also establishes the principles for the remuneration of the company's other senior executives, and these principles are reported to the General Meeting. All employees have the same performance-based bonus scheme. Further information is provided in the notes to the annual financial statements.

13. Information and communication

North Energy keeps shareholders and investors informed of the company's commercial and financial status on a regular basis. The requirements pertaining to such information have increased because of the company's stock exchange listing and expansion of the body of shareholders. The Board of Directors is concerned about ensuring that the players on the stock market receive the same information at the same time, and all financial and commercial information will therefore be made available on the company's website. Stock exchange notices will be distributed via Hugin at www.newsweb.no.

North Energy's annual financial statements will be made available on the company's website at least three weeks prior to the General Meeting. Quarterly reports will be published no later than 2 months after the end of the quarter. Quarterly presentations will be broadcast directly on the Internet. North Energy publishes an annual financial calendar that is available on the Oslo Børs website.

The Board of Directors stresses the importance of openness and equal treatment in relation to all the players in the market and strives always to provide as true and fair picture of the company's financial position as possible.

14. Company takeover

North Energy's Articles of Association do not contain any limitations or defence mechanisms as regards acquisition of the company's shares. In accordance with its general responsibility for the supervision of North Energy, the Board of Directors will act in the best interests of all of the company's shareholders in a situation of this type.

15. Auditor

The annual financial statements are audited. The Board of Directors receives and reviews reports from the auditor after the financial statements for the year in question have been audited. The auditor submits an annual plan for the auditing work and participates in board meetings in which the review of accounts requires the presence of the auditor. At at least one of these meetings, the auditor will report to the Board of Directors without the presence of the management. The auditor submits a declaration of his independence and objectivity. The Board of Directors reviews this to ensure that the auditor satisfies the requirements for a satisfactory and independent control function. The Board of Directors submits the auditor's report to the General Meeting, which also approves the auditor's fees.

Alta, 12 April 2011

Johan Petter Barlindhaug
Styreleder

Leif Finsveen
Styremedlem

Kristin Ingebrigtsen
Styremedlem

Arnulf Østensen
Styremedlem

Ole Njærheim
Styremedlem

Hans Kristian Rød
Styremedlem

Heidi Petersen
Styremedlem

Guri Ingebrigtsen
Styremedlem

Jørn Olsen
Styremedlem

Erik Karlstrøm
Administrerende direktør

Annual financial statements and notes North Energy Group

CONSOLIDATED INCOME STATEMENT

(NOK 1 000)	Note	2010	2009
Payroll and related cost	5	-62 149	-62 370
Depreciation and amortisation	17	-4 593	-3 414
Exploration expenses	18	-179 049	-113 098
Other operating expenses	6	-43 445	-28 752
Operating profit		-289 236	-207 633
Finance income	19	9 464	4 300
Finance costs	19	-4 740	-5 113
Net financial items		4 724	-813
Profit before income tax		-284 512	-208 446
Income tax credit	16	221 596	144 029
Profit for the year		-62 916	-64 417
Earnings per share (NOK per share)			
- Basic	14	-2.67	-8.07
- Diluted	14	-2.67	-8.07

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(NOK 1 000)	Note	2010	2009
Profit for the year		-62 916	-64 417
Other comprehensive income, net of tax:			
Actuarial gains/-losses pension	22	-932	166
Total other comprehensive income, net of tax		-932	166
Total comprehensive income for the year		-63 848	-64 250

CONSOLIDATED BALANCE SHEET

(NOK 1 000)	Note	31-12-10	31-12-09
ASSETS			
Non-current assets			
Property, plant and equipment	17	16 167	13 387
Capitalised exploration and license costs	18	128 214	9 382
Other receivables	7	17 528	9 782
Total non-current assets		161 909	32 551
Current assets			
Prepayments and other receivables	8	37 926	15 118
Tax receivable refund tax value exploration expenses	16	347 532	148 960
Financial assets	9	4 674	0
Cash and cash equivalents	9	86 015	45 671
Total current assets		476 147	209 748
Total assets		638 056	242 299

(NOK 1 000)	Note	31-12-10	31-12-09
EQUITY AND LIABILITIES			
Equity			
Share capital	10	25 150	9 201
Share premium		606 141	233 573
Other paid-in capital		29 570	26 999
Retained earnings		-180 685	-116 837
Total equity		480 176	152 935
Liabilities			
Non-current liabilities			
Pension liabilities	22	15 346	6 110
Deferred tax	16	45 791	0
Total non-current liabilities		61 137	6 110
Current liabilities			
Current borrowings	12	0	45 000
Trade creditors		47 185	16 949
Other current liabilities	13	49 559	21 305
Total current liabilities		96 743	83 254
Total liabilities		157 880	89 364
Total equity and liabilities		638 056	242 299

Alta, 12 april 2011

Johan Petter Barlindhaug
Chairman

Kristin Ingebrigtsen
Board member

Ole Njærheim
Board member

Guri Helene Ingebrigtsen
Board member

Leif W. Finsveen
Board member

Arnulf Østensen
Board member

Hans Kristian Rød
Board member

Heidi Marie Petersen
Board member

Jørn Olsen
Board member

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 1st of January 2009		5 811	147 639	8 080	-52 588	108 943
Transactions with owners:						
Share issues		3 390	94 319	0	0	97 709
Share issue expenses		0	-5 442	0	0	-5 442
Underwriters warrants		0	-2 944	2 944	0	0
Share-based payment, warrants	11	0	0	13 308	0	13 308
Share-based payment, bonus shares	5	0	0	2 667	0	2 667
Comprehensive income:						
Total compehensive income for 2009		0	0	0	-64 250	-64 250
Equity at 31st of December 2009		9 201	233 573	26 999	-116 837	152 935
Equity at 1st of January 2010		9 201	233 573	26 999	-116 837	152 935
Transactions with owners:						
Share issues		15 949	390 664	0	0	406 612
Share issue expenses (net after tax)		0	-18 095	0	0	-18 095
Share-based payment, bonus shares	5	0	0	2 571	0	2 571
Comprehensive income:						
Total compehensive income for 2010		0	0	0	-63 848	-63 848
Equity at 31st of December 2010		25 150	606 141	29 570	-180 685	480 176

CONSOLIDATED CASH FLOW STATEMENT

(NOK 1 000)	Note	2010	2009
Cash flow from operating activities			
Profit before income tax		-284 512	-208 446
Adjustments:			
Tax refunded	16	160 727	98 221
Deprecitiation	17	4 593	3 414
Impairment capitalised exploration expenses	18	52 016	0
Pensions		2 778	1 262
Expensed share-based payment recognised in equity		2 571	15 975
Changes in trade creditors		30 235	11 237
Changes in other accruals		-508	-2 491
Net cash flow from operating activities		-32 099	-80 827
Cash flow from investing activities			
Purchase of property, plant and equipment	17	-7 076	-1 204
Purchase of intangible assets	16, 18	-232 372	-11 529
Aquisition of subsidiary, net cash inflow		30 931	0
Changes in other non-current receivables	7	-5 520	-2 079
Net cash flow from investing activities		-214 038	-14 811
Cash flow from financing activities			
Borrowings/repayments of current borrowings	12	-45 000	35 711
Proceeds from share issues		331 481	92 267
Net cash flow from financing activities		286 481	127 978
Net change in cash and cash equivalents		40 344	32 340
Cash and cash equivivalents at 1st of January	9	45 671	13 331
Cash and cash equivivalents at 31st of December	9	86 015	45 671

NOTES

Note 1 General information

The consolidated financial statements of North Energy were approved by the board of directors and CEO at 12 April 2011.

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 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 following the Norwegian Accounting Act.

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

2.2 Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Group, but currently without any impact on the financial statements

- IFRS 3 Business Combinations (revised) and consequential amendments to IAS 27 Consolidated and separate financial statements (revised), IAS 28 Investments in associates, and IAS 31 Interests in joint Ventures
- IFRIC 17 Distribution of Non-cash Assets to Owners
- IFRIC 18 Transfers of assets from customers
- IFRIC 9 Reassessment of embedded derivates and IAS 39 Financial instruments: Recognition and measurement
- IFRIC 16 Hedges of a net investment in a foreign operation
- IAS 38 Intangible Assets (amendment)
- IAS 1 Presentation of Financial Statements (amendment)
- IAS 36 Impairment (amendment)
- IFRS 2 Share-based Payment (amendment): Group Cash-settled Share-based Payment
- IFRS 5 Non-current assets held for sale and discontinued operations (amendment)

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

- IFRS 9 Financial Instruments (new)
- IAS 24 Related party disclosures (revised)
- IAS 32 Financial instruments: Presentation (amendment): Classification of rights issues
- IFRIC 19 Extinguishing financial liabilties with equity instruments
- IFRIC 14 Prepayments of a minimum funding requirement (amendment)
- IFRS 7 Financial Instruments: Disclosures (amendment)
- Improvements to IFRSs

These standards and interpretations are not expected to have any material impact on the financial statements.

2.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of North Energy ASA and its subsidiaries. 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 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 values 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 individual to determine whether the acquisition should be deemed as a business combination or as an asset acquisition. When acquisitions are deemed as asset acquisitions no deferred tax on initial differences between carrying values and tax bases are recorded, nor any goodwill is recorded at the date of acquisition.

2.4 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.

2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any impairment charges. Depreciated are calculated on a straight line basis over the assets expected useful life and adjusted for any impairment charges. Expected useful lives of long-lived assets are annually and where they differ significantly from previous estimates, depreciation periods are changed accordingly. Ordinary repairs and maintenance costs are charges 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 in excess of the originally assessed standard of performance of the existing asset. Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount and are included in operating profit. Major assets with different expected useful lives are reported as separate components. Each component is depreciated on a straight line basis over its expected useful life.

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 assets carrying amount and its recoverable amount is recognised in the in income statement as impairment. Property, plant and equipment that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.6 Intangible assets

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 licenses 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 licenses are capitalised as intangible assets.

Capitalised costs of acquiring licenses and capitalised costs of drilling exploration wells are reviewed for potential impairment whenever events or changes in circumstances indicate that the carrying amount exceeds the recoverable amount. The recoverable amount is the higher if 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 assets carrying amount and its recoverable amount is recognised in the in income statement as impairment.

2.7 Farm in and Farm out in the exploration phase

Agreements in connection with acquisitions/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 up 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 by the farmee accounted for as the costs occurs and is classified in accordance with the policy for treatment of the exploration expenses (for North Energy 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.

2.8 Interests in Joint Ventures

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

2.9 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.

2.10 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.

2.11 Cash and cash equivalents
Cash and the equivalents include cash on hand, deposits with banks and other short-term highly liquid investments with original maturities of three months or less.

2.12 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.

2.13 Taxes
Income taxes for the period comprises tax payable, refundable tax from 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 statement and their tax bases, together with tax losses carried forward at the balance sheet date. Deferred tax assets and liabilities are calculated based on 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.

2.14 Pension plans
Pension plans are financed through payments to insurance companies, and are determined based on periodic actuary 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, adjusted for unrecognised variances in estimates and any unrecognised costs linked to previous periods pension earnings. 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 of an obligation issued by a company with high credit-rating in the same currency as in the benefit will be paid, and within the terms approximately equal to the terms of the related pension liability.

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

Changes in the benefits of the pension plan are recognised immediately in the income statement,
unless the changes to the pension plan are conditional on the employees 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.

2.15 Share-based payment
The Group has share-based payment consisting of bonus shares as part of the Group's general bonus programme for employees. The Group also had share-based payment consisting of warrants granted to CEO and other employees of the management. All programs are equity-settled.

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

Fair value of the warrants was estimated on the grant date and charged to expenses over the vesting period. The Group recognised a corresponding increase in equity, classified as other paid-in capital.

2.16 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 due to passage of time is recognised as finance cost.

The Group recognises a provision and an expense for severance payment when there exists an legal obligation to pay severance payment.

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.

2.17 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 form 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.

2.19 Segment reporting

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

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.

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 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 risk, interest rate risk, liquidity risk and currency risk.

(a) Credit risk

The Group is mainly exposed to credit risk related to bank deposits, investment in money market fund, receivables Joint Ventures and loans to employees. The exposure to credit risk is monitored on an ongoing basis. As all counterparties have 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 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 a loan up to MNOK 300. Interest rate is NIBOR+1,1%. The loan is secured by a pledge in tax receivables from refund according 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.

Sensitivity analysis:
Interest rate sensitivity is calculated based on exposure to interest bearing debt on the balance sheet date.
2010: The Group is not exposed to interest bearing debt at 31.12.2010.
2009: If NIBOR would have been 50 basis points higher/lower, the Group's profit after tax would have been TNOK 162 lower/higher.

(c) Liquidity risk
Liquidity risk is the risk of being unable to pay financial liabilities as they fall due. The Group's financial liabilities are short term and fall due within 0 - 6 months.

(d) Currency risk
The Parent company's and the subsidiary's functional currency is NOK. The Group is exposed to currency risk related to its activities because the value of potential discoveries is correlated with 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 the expenses, as to the contrary 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 interest groups. In addition, a capital structure at its optimum will reduce the costs of capital. To maintain or change the capital structure in the future, the 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 time for this is dependent of changes in market prices.

The Group monitors it's capital structur using a equity ratio, which is total equity divided by total assets. As at 31 December 2010 the equity ratio was 75,3% (63,1% as at 31 December 2009).

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, 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 indirectly exploration expenses according to the Norwegian Petroleum Tax Act. See note 16.

b) Deferred tax/tax assets
Most critical estimates influencing carrying amount is related to valuations/judgement of utilization of deferred tax assets. See note 16.

c) 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 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 22.

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 licenses and drilling costs of exploration wells, are expensed as incurred.

Note 5 Payroll and related cost, remuneration to board of directors and management

Amounts in NOK 1 000	2010	2009
Salaries	42 738	36 561
Share-based payment, bonus shares	2 571	2 667
Share-based payment, warrants	0	4 934
Payroll tax	2 848	2 325
Pension costs (see note 22)	9 693	9 503
Other benefits	4 298	6 380
Total	62 149	62 370
Average number of employees	42,7	37,0

Remuneration to board of directors and management in 2010:

Amounts in NOK 1 000	Director's fees	Salaries	Bonus	Pension	Other *
Management					
Erik Karlstrøm (CEO)		3 130	644	3 067	1 562
Knut Sæberg (CFO)		1 996	263	212	19
Svein Johansen (Exploration Manager)		1 590	179	542	25
Astrid M. Tugwell (Development Manager)		1 315	169	137	19
Lars Tveter (Manager HSE)		1 168	200	360	94
Vigdis Wiik Jakobsen (Portfolio Manager)		1 526	97	186	19
Marion Høgmo (Administration Manager)		874	160	79	21
Tore Henrik Guldbrandsøy (Manager Business Development)		1 216	435	220	15
Siw Sandvik (Communication Manager) **		292	0	41	5
Board of directors					
Johan P. Barlindhaug (Chairman)	420				
Kristin Ingebrigtsen (Board member)	180				
Ole Njærheim (Board member)	0				
Guri Helene Ingebrigtsen (Board member)	180				
Leif W. Finsveen (Board member)	180				
Arnulf Østensen (Board member)	180				
Hans Kristian Rød (Board member)	156				
Heidi Marie Petersen (Board member)	0				
Jørn Olsen (Board member)	0				
Harriet Hagan (former Board member)	168				
Eirik F. Hansen (former Board member)	180				
Total	1 644	13 107	2 148	4 845	1 776

(*) Other include benefit from free car, loan interest rate benefit, allowances to cover telephone and internet, training fee, group life insurance and travel insurance. In addition, for Erik Karlstrøm other include benefit from acquisition of shares at discounted price in connection with exercise of warrants.

(**) Employed from 01.10.2010

Remuneration to CEO:

The company's CEO has an agreement with an annual salary of NOK 2,56 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 program as determined by the board of directors. The bonus is limited to 1/3 of fixed salary, with distribution 50/50 on cash and bonus shares, where the cash bonus is earned first. In case of resignation at the request of the board of directors, CEO has a right to a severance payment equivalent with 2 years gross fixed salary. If CEO resigns, there is no severance payment. CEO has further 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. See note 11 for information about CEO's former subscription rights.

Bonus program:

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

Severance payment:

CEO and CFO have agreements covering severance payment. In case of resignation at the request of the board of directors, they have the right to a severance payment equivalent with 2 years gross fixed salary.

Warrants:

See note 11 for information about former warrants for CEO and other employees of the management.

Information about loan to employees 2010:

Amounts in NOK 1 000	loan at 31.12.10	Maturity	Interest rate
Loan to Erik Karlstrøm	1 546	10 years	2 %
Loan to other employees	9 964	20 years	2 % *
Total	11 510		

(*) NOK 0,45 million of the loans to other employees has interest rate of 6 %, while remaining loans have interest rate of 2 %.

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

Remuneration to board of directors and management in 2009:

Amounts in NOK 1 000	Director's fees	Salaries *	Bonus	Pension	Other **
Management					
Erik Karlstrøm (CEO)		3 671	408	3 078	791
Astrid M. Tugwell (Development Manager)		1 280	183	192	332
Svein Johansen (Exploration Manager Norwegian Sea)		1 593	250	583	256
Lars Tveter (Manager HSE)		1 241	163	410	325
Torleiv Agdestein (Chief Geologist)		1 362	93	218	346
Knut Aaneland (Manager of Technology & Business dev.)		1 295	133	358	255
Vigdis Wiik Jakobsen (Exploration Manager Barents Sea)		1 471	131	289	883
Marion Høgmo (Administration Manager)		845	98	104	19
Knut Sæberg (CFO)		1 583	0	304	15
Board of directors					
Johan P. Barlindhaug (Chairman)	220				
Leif W. Finsveen (Board member)	110				
Harriet Hagan (Board member)	110				
Eirik F. Hansen (Board member)	110				
Kristin Ingebrigtsen (Board member)	110				
Hans Kristian Rød (Board member)	110				
Arnulf Østensen (Board member)	0				
Guri Helene Ingebrigtsen (Board member)	0				
Anna M. Aursund (former Board member)	110				
Total	880	14 341	1 459	5 536	3 223

(*) Erik Karlstrøm has an agreement with an annual salary of NOK 2,45 million. In 2009 it has been paid salary to Erik Karlstrøm for 2007 and 2008 in connection with a salary increase in 2009 with effect from 1 November 2007.

(**) Other include benefit from free car, loan interest rate benefit, benefit from free housing, allowances to cover telephone and internet, group life insurance, travel insurance and benefit from acquisition of shares at discounted price in connection with exercise of warrants.

Information about loan to employees 2009:

Amounts in NOK 1 000	loan at 31.12.09	Maturity	Interest rate
Loan to Erik Karlstrøm	1 735	10 years	2 %
Loan to Torleiv Agdestein	1 892	20 years	2 %
Loan to other employees	2 363	20 years	2 % *
Total	5 989		

(*) NOK 0,45 million of the loans to other employees have interest rate of 6 %, while remaining loans have interest rate of 2 %.

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

The board of director's 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 the 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 criterias such as experience, area of responsibility and achievement of results. The remuneration system for management employees shall further stimulate a strong and lasting profit oriented organisation which contributes to increasing the shareholder value.

Total remuneration to management employees include:

(1) Market based fixed salary.
(2) Bonus. The management is included in the company's general employee bonus program. The bonus is limited to 1/3 of fixed salary, with distribution 50/50 on cash and bonus shares, where the cash bonus is earned first. The bonus is linked to the achievement of specified parameters for each 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. CEO has in addition an early retirement pension scheme from the age of 62 until the ordinary retirem ent age (67 years), where the pension is 67% of last annual salary.
(4) Severance payment. CEO and CFO have agreements covering severance payment. In case of resignation at the request of the board of directors, they have the right to a severance payment equivalent with 2 years gross fixed salary.
(5) Warrants granted.
(6) 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	2010	2009
Travelling expenses	6 300	5 084
Lease expenses (see note 21)	6 445	4 382
Consultant's and other fees	8 898	4 451
Advertising costs	3 967	3 578
Other administrative expenses	17 836	11 257
Total	43 445	28 752

Remuneration to auditor is allocated as specified below:

Amounts in NOK 1 000	2010	2009
Audit	461	75
Tax assistance	0	49
Attestations	102	91
Legal assistance	0	71
Accounting assistance	24	778
Due diligence, prospectus	215	1 167
Total, excl. VAT	803	2 230

Note 7 Other non-current receivables

Other non-current receivables include:

Amounts in NOK 1 000	2010	2009
Loan to employees (note 5 and 15)	11 510	5 989
Deposit	424	421
Pension assets (note 22)	5 594	3 372
Total	17 528	9 782

Note 8 Prepayments and other receivables

Prepayments and other receivables include:

Amounts in NOK 1 000	2010	2009
Prepaid expenses	3 137	2 960
VAT receivable	4 372	4 138
Receivables, Joint Ventures	30 417	8 013
Other items	0	7
Total	37 926	15 118

Note 9 Cash and cash equivalents and financial assets

Cash and cash equivalents:

Amounts in NOK 1 000	2010	2009
Bank deposits	86 015	45 671
Total cash and cash equivalents	86 015	45 671
Of this:		
Restricted cash for witheld taxes from employees salaries	3 012	3 250
Restricted cash on escrow account	0	10 000

(*) Amount paid to an escrow account in 2009 in connection with acquisition of interest in license PL433. The amount has been released after the first drilling completed in 2010.

Financial assets:

Amounts in NOK 1 000	2010	2009
Investment in money market fund	4 674	0
Total financial assets	4 674	0

Note 10 Share capital and shareholder information

	2010	2009
Number of outstanding shares at 1 January	9 200 970	581 122
New shares issued during the year:		
Issued in exchange for cash	14 061 974	338 975
Issued as consideration at acquisition of 4sea energy AS	1 886 792	0
Total number of outstanding shares before share split 1:10	25 149 736	920 097
Share split 1:10 in December 2009	0	9 200 970
Number of outstanding shares at 31 December	25 149 736	9 200 970
Nominal value NOK per share at 31 December	1	1
Share capital NOK at 31 December	25 149 736	9 200 970

North Energy has one class of shares with equal rights for all shares. No dividends have been proposed or paid in 2009 or 2010. Refer to note 11 for number of outstanding warrants.

Main shareholders as of 31 December 2010:

Shareholder	Number of shares	% Share
UBS AG, London Branch	2 446 500	9.73 %
SKS Eiendom AS	1 824 920	7.26 %
JPB AS	1 350 000	5.37 %
Origo Kapital AS	1 248 100	4.96 %
Onshore Group Nordland AS	933 340	3.71 %
IHM Holding AS	739 929	2.94 %
Skandinaviska Enskilda Banken	645 300	2.57 %
Kapnord Fond AS	640 000	2.54 %
Alta Kraftlag AL	600 230	2.39 %
The Northern Trust Co.	564 900	2.25 %
IKM Industri-Invest AS	545 648	2.17 %
State Street Bank & Trust Co.	536 008	2.13 %
Morgan Stanley & Co. Internat. Plc	531 227	2.11 %
Ninerik AS	516 735	2.05 %
Bank Of New York Mellon SA/NV	500 000	1.99 %
Caceis Bank	484 670	1.93 %
The Northern Trust Co.	442 204	1.76 %
DnB NOR SMB	435 000	1.73 %
Leonhard Nilsen & Sønner AS	431 210	1.71 %
First Securities AS	425 000	1.69 %
Total 20 largest shareholders	15 840 921	62.99 %
Other shareholders	9 308 815	37.01 %
Total	25 149 736	100.00 %

Number of shares owned by management and Board of directors at 31 December 2010:

Management		
Erik Karlstrøm (CEO), directly and through Ninerik AS	629 543	2.50 %
Knut Sæberg (CFO)	16 500	0.07 %
Svein Johansen (Exploration Manager)	38 210	0.15 %
Astrid M. Tugwell (Development Manager)	36 012	0.14 %
Lars Tveter (Manager HSE)	37 615	0.15 %
Vigdis Wiik Jakobsen (Portfolio Manager)	41 000	0.16 %
Marion Høgmo (Administration Manager)	5 039	0.02 %
Board of directors		
Johan P. Barlindhaug (Chairman), through JPB AS	1 350 000	5.37 %
Arnulf Østensen (Board member)	10 000	0.04 %
Jørn Olsen (Board member)	2 886	0.01 %
Total	2 166 805	8.62 %

Main shareholders as of 31 December 2009:

Shareholder	Number of shares	% Share
1 JPB AS	1 336 610	14.53 %
2 Origo Kapital AS	1 248 100	13.56 %
3 SKS Eiendom AS	1 138 210	12.37 %
4 Onshore Group Nordland	813 334	8.84 %
5 Kapnord Fond AS	640 000	6.96 %
6 Alta Kraftlag AL	600 230	6.52 %
7 Perpetuum Invest AS	478 670	5.20 %
8 Nilsen & Sønner AS	431 210	4.69 %
9 Helgeland Vekst AS	315 000	3.42 %
10 Petroinvest Nord AS C/O Helgeland Vekst	296 800	3.23 %
11 Oljeinvest AS	200 000	2.17 %
12 Sør-Varanger Invest	180 160	1.96 %
13 Helgelandsbase AS	133 330	1.45 %
14 Nord Troms Kraftlag	122 920	1.34 %
15 Elektro A/S	120 006	1.30 %
16 Karlstrøm Erik	97 400	1.06 %
17 Harald Nilsen AS ENT	93 360	1.01 %
18 Repvåg Kraftlag	91 430	0.99 %
19 Nordkyn Kraftlag AL	81 000	0.88 %
20 Strøm Invest AS	80 000	0.87 %
Total 20 largest shareholders	8 497 770	92.36 %
Other shareholders	703 200	7.64 %
Total	9 200 970	100.00 %

Number of shares owned by management and Board of directors at 31 December 2009:

Management		
Erik Karlstrøm (CEO)	97 400	1.06 %
Torleiv Agdestein (Chief Geologist)	32 250	0.35 %
Svein Johansen (Exploration Manager Norwegian Sea)	32 350	0.35 %
Astrid M. Tugwell (Development Manager)	32 350	0.35 %
Lars Tveter (Manager HSE)	32 700	0.36 %
Knut Aaneland (Manager of Technology & Business development)	33 600	0.37 %
Vigdis Wiik Jakobsen (Exploration Manager Barents Sea)	36 500	0.40 %
Marion Høgmo (Administration Manager)	1 500	0.02 %
Board of directors		
Johan P. Barlindhaug (Chairman), through JPB AS	1 336 610	14.53 %
Total	1 635 260	17.77 %

Note 11 Warrants

Of the outstanding subscription rights at 31 December 2009 related to share-based payment for CEO and and six other employees of the management, 516,735 of these subscription rights were exercised within the expiry date in February 2010 by Ninerik AS, a company controlled by CEO Erik Karlstrøm. Average subscription price was approx. NOK 12.70 per share. The remaining of these subscription rights expired 17 February 2010.

Of the outstanding subscription rights for shareholders at 31 December 2009, all 1,400,520 subscription rights were exercised in February 2010. The subscription price was NOK 21.20 per share.

At 31 December 2010 there are no outstanding subscription rights.

The company had entered into a contract with the CEO and six other employees of the management, which gave them the right to subscribe for shares in the company.

CEO had the right to subscribe for shares such that he would own up to 2.5% of the outstanding shares in the company following the public share issue in connection with the listing on Oslo Axess. The subscription price per share was NOK 25 for shares bringing his shareholding up to 1.5% and NOK 0,10 for shares bringing his shareholding from 1.5% to 2.5%. Expiry date for the warrants was 17 February 2010. The exercise was subject to employment at the time of exercise of the warrants. A 3 years lock-in period for the shares subscribed according to the above applies.

The other six employees of the management had the right to subscribe for shares such that they would own up to 0.5% of the outstanding shares in the company following the public share issue in connection with the listing on Oslo Axess. The subscription price per share was NOK 25. Expiry date for the warrants was 17 February 2010. The exercise was subject to employment at the time of exercise of the warrants. A 3 years lock-in period for the shares subscribed according to the above applies.

All warrants at 31 December 2009 were equity-settled.

See note 5 for total expenses in the income statement arising from warrants granted to employees.

Movement in estimated number of outstanding warrants for employees and average subscription price:

	2010		2009	
	Estimated number of warrants	Average subscription price NOK per share	Estimated number of warrants	Average subscription price NOK per share
Outstanding warrants at 1 January	941 827	19.04	812 690	17.37
Warrants granted	0		237 717	19.01
Warrants forfeited	0		0	
Warrants exercised	-516 735	12.70	-108 580	6.43
Warrants expired	-425 092	25.00	0	
Outstanding warrants at 31 December	0		941 827	19.04

Weighted average fair value for warrants granted in 2009 was NOK 17.23 per warrant.

The fair value of the warrants has been estimated using Black & Scholes option-pricing model, based on the following assumptions:

Share price on the grant date:
The share price is estimated to NOK 25 – NOK 32.

Expected volatility:
The expected volatility is stipulated to be 60%. This is based on observations on comparable companies on the Oslo Stock Exchange since the company was not listed at the grant dates.

Weighted average expected term years:
Weighted average expected term years is 0.61 years for warrants granted in 2009 and 0.58 years for warrants granted in 2008.

Expected dividend yield:
The expected dividend per share is NOK 0 per annum

Expected risk-free interest rate:
The risk-free interest rate assumed when calculating fair value of the warrants is equal to the interest rate on government bonds during the term of the warrants (1.86% – 6.04%).

Note 12 Current borrowings

Current borrowings include:

Amounts in NOK 1 000	2010	2009
Revolving credit facility ('Exploration loan' with limit MNOK 300)	0	45 000
Balance 31 december	0	45 000

In 2009 North Energy ASA entered into a revolving credit facility agreement which entilted the company a loan up to NOK 300 million. The loan is secured by a pledge in tax receivables from refund according to the Norwegian Petroleum Tax Act and the interests in production licences which the company at any time has. Interest rate was NIBOR + 1.1%. In December 2010 the Group has renewed and expanded its exploration loan facility from NOK 300 million to NOK 760 million. Interest rate is NIBOR + 2%.

Note 13 Other current liabilities

Amounts in NOK 1 000	2010	2009
Public duties payable	3 475	3 760
Accruals, Joint Ventures	25 657	3 037
Vacation pay and bonus payable	10 719	9 105
Other accruals for incurred costs	9 708	5 403
Total	49 559	21 305

Note 14 Earnings per share

	2010	2009
Profit for the year (NOK 1 000)	-62 916	-64 417
Weighted average number of shares outstanding	23 554 223	7 978 807
Earnings per share (NOK per share)		
- Basic	-2.67	-8.07
- Diluted	-2.67	-8.07

The dilution effect of potentially shares from warrants, is in accordance with IAS 33.41 not presented in the income statement, as the exercise of warrants would have reduced loss per share. Refer to note 11 for number of outstanding warrants.

Note 15 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	2010	2009
Origo Nord AS (management company for shareholder Origo Kapital AS)	HR and other administrative services	0	186
Origo Økonomipartner AS (100% owned by Origo Nord AS, who is management company for shareholder Origo Kapital AS)	Accounting services	155	450
Origo Nord AS (management company for shareholder Origo Kapital AS)	Information-, web- and consulting services	56	150
Barlindhaug Consult AS (controlled by Chairman Johan Petter Barlindhaug)	Consulting services	51	25

Services are purchased at market terms.

(b) Remuneration to management and Board of directors

Refer to note 5 and note 11

(c) Loans to related parties

See note 5 for information about loans to management.

(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 16 Tax

Specification of income tax:

Amounts in NOK 1 000	2010	2009
Calculated refund tax value of exploration costs this year	347 728	153 841
Of this refund not recognised in income statement (acquisition of licenses recognised net of tax)	-67 258	-2 147
Correction refund previous years	-2 627	-7 664
Change deferred tax in balance	-45 791	0
Of this deferred tax asset not recognised in income statement (acquisition of licenses recognised net of tax)	-115	0
Of this deferred tax asset related to items in comprehensive income recognised in comprehensive income	-3 304	0
Of this deferred tax asset related to equity transactions recognised directly in equity	-7 037	0
Total income tax credit	221 596	144 029

Specification of tax receivable refund tax value exploration expenses:

Amounts in NOK 1 000	31-12-10	31-12-09
Calculated refund tax value of exploration costs this year	348 289	153 841
Correction refund previous years, assessed but not settled	-4 881	0
Correction refund previous years, not yet assessed	0	-4 881
Correction refund previous years, assessed but appealed	4 124	0
Total tax receivable refund tax value exploration expenses	347 532	148 960

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 out in December the following year.

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

Amounts in NOK 1 000	31-12-10	31-12-09
Property, plant and equipment	4 279	3 992
Capitalised exploration and license costs	121 748	8 776
Financial assets	97	0
Pensions	-9 752	-2 738
Other current liabilities	0	-100
Tax losses carried forward, onshore	-37 327	0
Tax losses carried forward, offshore only 28% basis	-31 308	-6 480
Tax losses carried forward, offshore only 50% basis	-870	-854
Tax losses carried forward, offshore both 28% and 50% basis	-64 614	-25 759
Total basis for deferred tax	-17 746	-23 163
Deferred tax liability (-) / tax asset (+)	-20 668	14 592
Not capitalised deferred tax asset (valuation allowance) *	-25 124	-14 592
Deferred tax liability (-) / tax asset (+) in balance	-45 791	0

(*) Not capitalised deferred tax asset is mainly related to onshore tax loss carried forward and offshore tax losses carried forward in subsidiary 4sea energy AS.

Reconciliation of effective tax rate:

Amounts in NOK 1 000	2010	2009
Profit before tax	-284 512	-208 446
Expected income tax credit 78%	221 919	162 588
Adjusted for tax effects (28% - 78%) of the following items:		
Permanent differences	-18 298	-9 510
Correction previous years	-57	-8 645
Interest on tax losses carried forward offshore	448	0
Finance items	2 555	-2 960
Change in valuation allowance for deferred tax assets and other items	15 028	2 556
Total income tax credit	221 596	144 029

Note 17 Property, plant and equipment

Amounts in NOK 1 000	Equipment, office machines etc.
2010	
Cost:	
At 1.1.2010	18 877
Additions - acquired separately	7 076
Additions - acquired through acquisition of subsidiary 4sea energy AS	298
Disposals	0
At 31.12.2010	26 250
Depreciation and impairment:	
At 1.1.2010	-5 489
Depreciation this year	-4 593
Impairment this year	0
Disposals	0
At 31.12.2010	-10 082
Carrying amount at 31.12.2010	16 167

Amounts in NOK 1 000	Equipment, office machines etc.
2009	
Cost:	
At 1.1.2009	17 673
Additions	1 204
Disposals	0
At 31.12.2009	18 877
Depreciation and impairment:	
At 1.1.2009	-2 075
Depreciation this year	-3 414
Impairment this year	0
Disposals	0
At 31.12.2009	-5 489
Carrying amount at 31.12.2009	13 387
Economic life	3-10 years
Depreciation method	linear

Note 18 Capitalised and expensed exploration and license costs

(a) Capitalised exploration and license costs

Amounts in NOK 1 000	Capitalised exploration and license costs
2010	
Cost:	
At 1.1.2010	9 382
Additions - capitalised exploration and license costs *	164 999
Additions - through acquisition of subsidiary 4sea energy AS **	5 849
Disposals ***	-52 016
At 31.12.2010	128 214
Amortisation and impairment:	
At 1.1.2010	0
Amortisation this year	0
Impairment this year ***	52 016
Disposals ***	-52 016
At 31.12.2010	0
Carrying amount at 31.12.2010	128 214

(*) Additions are mainly related to drilling of exploration well in license PL 433 where North Energy in addition to own share of 12% carry 8% of all expenses, and acquisition cost of license PL 341 recognised net of tax together with drilling of exploration well in license PL 341, where North Energy in addition to own share of 11% carry 7% of the drilling expenses for the first well.
(**) Additions include mainly license PL 498 (25% share) and PL 503 (25% share).
(***) Disposals are related to impairment of capitalised expenses in license PL 341 due to dry well result.

Amounts in NOK 1 000	Capitalised exploration and license costs
2009	
Cost:	
At 1.1.2009	0
Additions – capitalised exploration and license costs ****	9 382
Disposals	0
At 31.12.2009	9 382
Amortisation and impairment:	
At 1.1.2009	0
Amortisation this year	0
Impairment this year	0
Disposals	0
At 31.12.2009	0
Carrying amount at 31.12.2009	9 382

(****) Additions in 2009 are mainly related to drilling of exploration well in license PL 433 where North Energy in addition to own share of 12% carry 8% of all expenses, and acquisition cost of license PL 433 recognised net of tax.

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

(b) Expensed exploration and license costs

Specification of expensed exploration and license costs:

Amounts in NOK 1 000	2010	2009
Share of exploration expenses from participation in licenses, incl. seismic, G&G, dry wells, carry	73 448	40 900
Impairment of capitalised exploration expenses	52 016	0
Seismic and other exploration costs	53 585	72 198
Total exploration and license costs	179 049	113 098

Note 19 Finance income and costs

Finance income:

Amounts in NOK 1 000	2010	2009
Interest income bank deposits	4 236	767
Interest income on tax refund	2 864	2 866
Other interest income	202	159
Foreign exchange gain	2 158	509
Other finance income	5	0
Total finance income	9 464	4 300

Finance costs:

Amounts in NOK 1 000	2010	2009
Interest expense	1 364	5 018
Foreign exchange loss	2 025	84
Financial items, Joint Ventures	1 337	7
Other finance costs	14	5
Total finance costs	4 740	5 113

Note 20 Financial instruments

(a) Categories of financial instruments

At 31 Desember 2010:

Amounts in NOK 1 000	Loans and receivables	Financial assets at fair value through profit or loss
Assets:		
Other non-current receivables [1]	11 934	0
Other current receivables	30 417	0
Financial assets (money market fund)	0	4 674
Cash and cash equivalents	86 015	0
Total	128 366	4 674

Amounts in NOK 1 000	Financial liabilities measured at amortised cost
Liabilities:	
Trade creditors	47 185
Other current liabilities [2]	36 375
Current borrowings	0
Total	83 560

At 31 Desember 2009:

Amounts in NOK 1 000	Loans and receivables
Assets:	
Other non-current receivables [1]	6 410
Other current receivables	8 020
Cash and cash equivalents	45 671
Total	60 101

Amounts in NOK 1 000	Financial liabilities measured at amortised cost
Liabilities:	
Trade creditors	16 949
Other current liabilities [2]	12 142
Current borrowings	45 000
Total	74 091

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% (2009: 5.0%). The discount rate correspond to 10-year fixed-rate loans with the addition of relevant credit rating.

Amounts in NOK 1 000	2010	2009
Other non-current receivables	9 268	5 023

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. The carrying amount of financial assets (money market fund) is equal to fair value.

(c) Creditworthiness of financial assets

The Group does not have a system that separates receivables and loans on counterparty credit rating. Non-current receivables are mainly loans to employees. Loans to employees are repaid according to agreement and these loans have not been impaired in 2009 or 2010. Cash and cash equivalents and financial assets are receivables from two banks, and Standard & Poor's credit rating of these banks is presented below:

	2010	2009
Bank deposits and investment in money market fund:	90 688	45 671

Amounts in NOK 1 000	2010	2009
No external credit rating	0	0
A	90 688	38 906
AA	0	6 765
Total	90 688	45 671

(d) Financial risk factors

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

Note 21 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 contain any restrictions on the company's dividend policy or financing opportunities.

The lease costs consist of the following:

Amounts in NOK 1 000	2010	2009
Lease office premises (inclusive joint costs)	5 695	2 982
Lease machinery and office furniture	736	384
Lease cars	1 009	1 016
Sublease office premises	-995	0
Total lease costs	6 445	4 382

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

Amounts in NOK 1 000	2010	2009
Within 1 year - leases	1 378	0
Within 1 year - subleases	-1 256	0
1 to 5 years - leases	2 526	0
1 to 5 years - subleases	-523	0
After 5 years	0	0
Total net lease	2 124	0

Note 22 Pension

Actuarial assumptions:

	2010	2009
Discount rate	4.50 %	3.80 %
Expected rate of return on plan assets	5.70 %	5.80 %
Expected annual salary increases	4.50 %	4.00 %
Expected annual adjustment of pension benefits	4.25 %	3.75 %
Expected rate of G-regulation	4.25 %	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	2010	2009
Current service cost	8 917	8 813
Interest cost	604	177
Expected return on plan assets	-342	-56
Social security cost	514	569
Total pension expense included in payroll and related cost	9 693	9 503

Specification of net pension liability:

Amounts in NOK 1 000	2010	2009
Present value of funded obligations at 31.12	26 295	13 699
Estimated fair value of plan assets at 31.12	16 543	10 961
Net pension liability	9 752	2 738

Classification of net pension liability in the balance sheet:

Amounts in NOK 1 000	2010	2009
Other non-current receivables (note 7)	5 594	3 372
Pension liabilities	15 346	6 110
Net pension liability	9 752	2 738

One individual pension plan is over funded with TNOK 5 594 at the end of 2009 (TNOK 3 372 at the end of 2009). The over funding will be used to cover future liabilities, but not liabilities concerning other pension plans that the company have. The amount is therefore classified as other non-current receivable.

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

Amounts in NOK 1 000	2010	2009
Defined benefit obligations at 1 January	13 699	5 963
Current service cost	8 917	8 813
Interest cost	604	177
Actuarial losses / gains (-)	3 075	-1 254
Liability for defined benefit obligations at 31 December	26 295	13 699

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

Amounts in NOK 1 000	2010	2009
Fair value of plan assets at 1 January	10 961	4 320
Expected return on plan assets	342	56
Actuarial losses (-) / gains	-1 161	-1 088
Employer contributions	6 401	7 673
Fair value of plan assets at 31 December	16 543	10 961

Plan assets are comprised as follows	2010	2009
Shares	13.5 %	3.8 %
Short-term bonds	23.3 %	29.9 %
Money market	8.5 %	14.0 %
Long-term bonds	35.7 %	28.8 %
Property	16.6 %	16.8 %
Other	2.3 %	6.7 %
Total	100.0 %	100.0 %

	2010	2009
Actual return on plan assets	6.20 %	4.70 %

	2011	2010
Expected contributions to funded plans next year	4 550	6 773

The pension arrangements fulfils the requirements in the Norwegian law of mandatory occupational pension (lov om obligatorisk tjenestepensjon).

Historic information:

Amounts in NOK 1 000	2010	2009	2008
Present value of funded obligations per 31.12	26 295	13 699	5 963
Estimated fair value of plan assets per 31.12	16 543	10 961	4 320
Net pension liability	9 752	2 738	1 643
Experienced actuarial losses (-) / gains to the pension obligation	-3 075	1 254	-2 495
Experienced actuarial losses (-) / gains to the plan assets	-1 161	-1 088	-206
Net actuarial losses (-) / gains	-4 236	166	-2 701
Recognised in comprehensive income (net of tax)	-932	166	-2 701
Recognised in comprehensive income (net of tax), accumulated	-3 467	-2 535	-2 701

Note 23 Contingent liabilities

North Energy has not been involved in any legal or financial disputes in 2010 or 2009, where adversely outcome is considered more likely than remote.

Note 24 Shares in licenses and obligations

Shares in licenses at 31 December 2010:

License	Share
PL 341	11 %
PL 385	15 %
PL 433	12 %
PL 498	25 %
PL 503	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 %

Obligations at 31 December 2010:

License	Share	Obligation	Expected time
PL 385	15 %	One firm well. Carry 7,5% of the total license cost until completion of the first well.	Well 4Q-2011/ 1Q-2012
PL 518	30 %	One firm well and one contingent well (2-1). Well 2 contingent of positive results in well 1.	First well 4Q-2011
PL 530	20 %	One firm well and one contingent well (2-1) Well 2 contingent of positive results in well 1.	First well 3Q-2011
PL 535	20 %	One firm well.	Well 2Q-2011

Shares in licenses at 31 December 2009:

License	Share
PL 385 *	15 %
PL 433	12 %
PL 510	20 %
PL 526	40 %
PL 518	30 %
PL 530	20 %
PL 535	20 %
PL 536	20 %

(*) The farm-in of a 15% interest in license PL385 from Statoil has been approved by Norwegian authorities in January 2010.

Obligations at 31 December 2009:

License	Share	Obligation	Expected time
PL 385	15 %	One firm well. Carry 7,5% of the total license cost until completion of the first well.	4Q-2010
PL 433	12 %	One firm well. Carry 8% of the total license cost until completion of the first well.	1Q-2010
PL 518	30 %	One firm well and one contingent well (2-1). Well 2 contingent of positive results in well 1.	First well 4Q-2011
PL 530	20 %	One firm well and one contingent well (2-1). Well 2 contingent of positive results in well 1.	First well 2011
PL 535	20 %	Acquire a minimum of 500 km^2 3D seismic and one firm well.	Seismic 2010, drilling 2011
PL 536	20 %	Acquire a minimum of 600 km^2 3D seismic.	2010

Note 25 Acquisition of subsidiary

In February 2010 North Energy completed the acquisition of 100 % of the outstanding shares in 4sea energy AS. The consideration for the aquisition comprise 1,886,792 new issued shares in North Energy, each with par value of NOK 1 and at a price of NOK 26.5, i.e. total consideration of NOK 50 million. 4sea energy AS is a company in the exploration phase with 25 % interest in license PL 498 and 25 % interest in license PL 503. The acquisition is deemed as asset acquisition and not as a business combination, i.e. no deferred tax on initial differences between carrying values and tax bases is recorded, nor any goodwill is recorded at the date of acquisition.

Note 26 Events after the balance sheet date

In January 2011 North Energy was awarded 5 new licenses, of this 1 operatorship in the APA 2010. Following this award the Group now holds a total of 19 licenses, of this 2 operatorship on the NCS.

North Energy has entered into an agreement with Wintershall Norge ASA for acquisition of a 10 % share in license PL 370 and acquisition of a 20 % share in license PL 385. Given governmental approval, North Energy will own 10% share in license PL 370 and 35 % share in license PL 385 (North Energy already own 15 % share in license PL 385).

Note 27 Reserves (unaudited)

The Group has reported reserves in accordance with guidelines in the Oslo Stock Exchange Circular 9/2009.

Annual financial statements and notes North Energy ASA

INCOME STATEMENT

(NOK 1 000)	Note	2010	2009
Payroll and related cost	5	-61 512	-62 370
Depreciation and amortisation	17	-4 296	-3 414
Exploration expenses	18	-177 071	-113 098
Other operating expenses	6	-40 678	-28 752
Operating profit		-283 556	-207 633
Finance income	19	8 524	4 300
Finance costs	19	-4 734	-5 113
Net financial items		3 790	-813
Profit before income tax		-279 766	-208 446
Income tax credit	16	217 216	144 029
Profit for the year		-62 550	-64 417

STATEMENT OF COMPREHENSIVE INCOME

(NOK 1 000)	Note	2010	2009
Profit for the year		-62 550	-64 417
Other comprehensive income, net of tax:			
Actuarial gains/-losses pension	22	-932	166
Total other comprehensive income, net of tax		-932	166
Total comprehensive income for the year		-63 482	-64 250

BALANCE SHEET

(NOK 1 000)	Note	31-12-10	31-12-09
ASSETS			
Non-current assets			
Property, plant and equipment	17	16 167	13 387
Capitalised exploration and license costs	18	122 365	9 382
Investment in subsidiaries	14	50 000	0
Other receivables	7	17 524	9 782
Total non-current assets		206 057	32 551
Current assets			
Prepayments and other receivables	8	37 225	15 118
Tax receivable refund tax value exploration expenses	16	342 591	148 960
Cash and cash equivalents	9	49 366	45 671
Total current assets		429 182	209 748
Total assets		635 239	242 299

(NOK 1 000)	Note	31-12-10	31-12-09
EQUITY AND LIABILITIES			
Equity			
Share capital	10	25 150	9 201
Share premium		606 141	233 573
Other paid-in capital		29 570	26 999
Retained earnings		-180 319	-116 837
Total equity		480 542	152 935
Liabilities			
Non-current liabilities			
Pension liabilities	22	15 346	6 110
Deferred tax	16	45 791	0
Total non-current liabilities		61 137	6 110
Current liabilities			
Current borrowings	12	0	45 000
Trade creditors		46 200	16 949
Other current liabilities	13	47 360	21 305
Total current liabilities		93 560	83 254
Total liabilities		154 697	89 364
Total equity and liabilities		635 239	242 299

Alta, 12 April 2011

Johan Petter Barlindhaug
Chairman

Kristin Ingebrigtsen
Board member

Ole Njærheim
Board member

Guri Helene Ingebrigtsen
Board member

Leif W. Finsveen
Board member

Arnulf Østensen
Board member

Hans Kristian Rød
Board member

Heidi Marie Petersen
Board member

Jørn Olsen
Board member

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 1st of January 2009		5 811	147 639	8 080	-52 588	108 943
Transactions with owners:						
Share issues		3 390	94 319	0	0	97 709
Share issue expenses		0	-5 442	0	0	-5 442
Underwriters warrants		0	-2 944	2 944	0	0
Share-based payment, warrants	11	0	0	13 308	0	13 308
Share-based payment, bonus shares	5	0	0	2 667	0	2 667
Comprehensive income:						
Total compehensive income for 2009		0	0	0	-64 250	-64 250
Equity at 31st of December 2009		9 201	233 573	26 999	-116 837	152 935
Equity at 1st of January 2010		9 201	233 573	26 999	-116 837	152 935
Transactions with owners:						
Share issues		15 949	390 664	0	0	406 612
Share issue expenses (net after tax)		0	-18 095	0	0	-18 095
Share-based payment, bonus shares	5	0	0	2 571	0	2 571
Comprehensive income:						
Total compehensive income for 2010		0	0	0	-63 482	-63 482
Equity at 31st of December 2010		25 150	606 141	29 570	-180 319	480 542

CASH FLOW STATEMENT

(NOK 1 000)	Note	2010	2009
Cash flow from operating activities			
Profit before income tax		-279 766	-208 446
Adjustments:			
Tax refunded	16	147 090	98 221
Deprecitiation	17	4 296	3 414
Impairment capitalised exploration expenses	18	52 016	0
Pensions		2 778	1 262
Expensed share-based payment recognised in equity		2 571	15 975
Changes in trade creditors		29 250	11 237
Changes in other accruals		3 948	-2 491
Net cash flow from operating activities		-37 818	-80 827
Cash flow from investing activities			
Purchase of property, plant and equipment	17	-7 076	-1 204
Purchase of intangible assets	16,18	-232 372	-11 529
Changes in other non-current receivables	7	-5 520	-2 079
Net cash flow from investing activities		-244 968	-14 811
Cash flow from financing activities			
Borrowings/repayments of current borrowings	12	-45 000	35 711
Proceeds from share issues		331 481	92 267
Net cash flow from financing activities		286 481	127 978
Net change in cash and cash equivalents		3 695	32 340
Cash and cash equivivalents at 1st of January	9	45 671	13 331
Cash and cash equivivalents at 31st of December	9	49 366	45 671

NOTES

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 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 CEO at 12 April 2011.

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 following the Norwegian Accounting Act.

2.2 Accounting policies

Accounting policies described in the consolidated financial statements of North Energy Group also applies for North Energy ASA. See description of accounting policies in note 2 in the consolidated financial statements of North Energy Group. Investment in subsidiaries are in the financial statements of North Energy ASA (parent company) valued at cost, less any necessary impairment. Impairment to recoverable amount will be carried out if impairment indicators are present and recoverable amount is less than book value. 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 is 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 cost, remuneration to board of directors and management

Amounts in NOK 1 000	2010	2009
Salaries	42 264	36 561
Share-based payment, bonus shares	2 571	2 667
Share-based payment, warrants	0	4 934
Payroll tax	2 746	2 325
Pension costs	9 693	9 503
Other benefits	4 238	6 380
Total	61 512	62 370
Average number of employees	42.7	37.0

Remuneration to board of directors and management:

See note 5 in the consolidated financial statements.

Information about loan to employees, incl. interest benefit 2010:

See note 5 in the consolidated financial statements.

The board of director's 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 the 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 criterias such as experience, area of responsibility and achievement of results. The remuneration system for management employees shall further stimulate a strong and lasting profit oriented organisation which contributes to increasing the shareholder value.

Total remuneration to management employees include:
(1) Market based fixed salary.
(2) Bonus. The management is included in the company's general employee bonus program. The bonus is limited to 1/3 of fixed salary, with distribution 50/50 on cash and bonus shares, where the cash bonus is earned first. The bonus is linked to the achievement of specified parameters for each 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. 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 last annual salary.

(4) Severance payment. CEO and CFO have agreements covering severance payment. In case of resignation at the request of the board of directors, they have the right to a severance payment equivalent with 2 years gross fixed salary.
(5) Warrants granted.
(6) 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	2010	2009
Travelling expenses	6 263	5 084
Lease expenses	5 131	4 382
Consultant's and other fees	8 135	4 451
Advertising costs	3 967	3 578
Other administrative expenses	17 181	11 257
Total	40 678	28 752

Remuneration to auditor is allocated as specified below:

Amounts in NOK 1 000	2010	2009
Audit	310	75
Tax assistance	0	49
Attestations	102	91
Legal assistance	0	71
Accounting assistance	24	778
Due diligence, prospectus	215	1 167
Total, excl. VAT	651	2 230

Note 7 Other non-current receivables

Other non-current receivables include:

Amounts in NOK 1 000	2010	2009
Loan to employees (note 5 and 15)	11 510	5 989
Deposit	421	421
Pension assets (note 22)	5 594	3 372
Total	17 524	9 782

Note 8 Prepayments and other receivables

Prepayments and other receivables include:

Amounts in NOK 1 000	2010	2009
Prepaid expenses	2 718	2 960
VAT receivable	4 156	4 138
Receivables, Joint Ventures	30 351	8 013
Other items	0	7
Total	37 225	15 118

Note 9 Cash and cash equivalents

Amounts in NOK 1 000	2010	2009
Bank deposits	49 366	45 671
Total cash and cash equivalents	49 366	45 671
Of this:		
Restricted cash for witheld taxes from employees salaries	3 012	3 250
Restricted cash on escrow account *	0	10 000

(*) Amount paid to an escrow account in 2009 in connection with acquisition of interest in license PL433. The amount has been released after the first drilling completed in 2010.

Note 10 Share capital and shareholder information

See note 10 in the consolidated financial statements.

Note 11 Warrants

See note 11 in the consolidated financial statements.

Note 12 Current borrowings

See note 12 in the consolidated financial statements.

Note 13 Other current liabilities

Amounts in NOK 1 000	2010	2009
Public duties payable	3 463	3 760
Accruals, Joint Ventures	25 657	3 037
Vacation pay and bonus payable	10 662	9 105
Other accruals for incurred costs	7 579	5 403
Total	47 360	21 305

Note 14 Investment in subsidiaries

Amounts in NOK 1 000

Company	Acquisition date	Location	Equity and voting share	Book value
4sea energy AS	11-02-2010	Norway	100.00 %	50 000
Total				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 comprise 1.886.792 new issued shares in North Energy ASA, each with par value of NOK 1 and at a price of NOK 26,5, i.e. total consideration of NOK 50 million. 4sea energy AS is a company in the exploration phase with 25% interest in license PL 498 and 25% interest in license PL 503.

Note 15 Related parties

See note 15 in the consolidated financial statements.

Note 16 Tax

Specification of income tax:

Amounts in NOK 1 000	2010	2009
Calculated refund tax value of exploration costs this year	343 348	153 841
Of this refund not recognised in income statement (acquisition of licenses recognised net of tax)	-67 258	-2 147
Correction refund previous years	-2 627	-7 664
Change deferred tax in balance	-45 791	0
Of this deferred tax asset not recognised in income statement (acquisition of licenses recognised net of tax)	-115	0
Of this deferred tax asset related to items in comprehensive income recognised in comprehensive income	-3 304	0
Of this deferred tax asset related to equity transactions recognised directly in equity	-7 037	0
Total income tax credit	217 216	144 029

Specification of tax receivable refund tax value exploration expenses:

Amounts in NOK 1 000	31-12-10	31-12-09
Calculated refund tax value of exploration costs this year	343 348	153 841
Correction refund previous years, assessed but not settled	-4 881	0
Correction refund previous years, not yet assessed	0	-4 881
Correction refund previous years, assessed but appealed	4 124	0
Total tax receivable refund tax value exploration expenses	342 591	148 960

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 out in December the following year.

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

Amounts in NOK 1 000	31-12-10	31-12-09
Property, plant and equipment	4 462	3 992
Capitalised exploration and license costs	121 748	8 776
Financial assets	0	0
Pensions	-9 752	-2 738
Other current liabilities	0	-100
Tax losses carried forward, onshore	0	0
Tax losses carried forward, offshore only 28% basis	-27 782	-6 480
Tax losses carried forward, offshore only 50% basis	-870	-854
Tax losses carried forward, offshore both 28% and 50% basis	-47 217	-25 759
Total basis for deferred tax	40 589	-23 163
Deferred tax liability (-) / tax asset (+)	-45 791	14 592
Not capitalised deferred tax asset (valuation allowance)	0	-14 592
Deferred tax liability (-) / tax asset (+) in balance	-45 791	0

Reconciliation of effective tax rate:

Amounts in NOK 1 000	2010	2009
Profit before tax	-279 766	-208 446
Expected income tax credit 78 %	218 218	162 588
Adjusted for tax effects (28 % – 78 %) of the following items:		
Permanent differences	-18 072	-9 510
Correction previous years	-57	-8 645
Interest on tax losses carried forward offshore	448	0
Finance items	2 088	-2 960
Change in valuation allowance for deferred tax assets and other items	14 592	2 556
Total income tax credit	217 216	144 029

Note 17 Property, plant and equipment

Amounts in NOK 1 000	Equipment, office machines etc.
2010	
Cost:	
At 1.1.2010	18 877
Additions	7 076
Disposals	0
At 31.12.2010	25 952
Depreciation and impairment:	
At 1.1.2010	-5 489
Depreciation this year	-4 296
Impairment this year	0
Disposals	0
At 31.12.2010	-9 785
Carrying amount at 31.12.2010	16 167
2009	
Cost:	
At 1.1.2009	17 673
Additions	1 204
Disposals	0
At 31.12.2009	18 877
Depreciation and impairment:	
At 1.1.2009	-2 075
Depreciation this year	-3 414
Impairment this year	0
Disposals	0
At 31.12.2009	-5 489
Carrying amount at 31.12.2009	13 387
Economic life	3-10 years
Depreciation method	linear

Note 18 Capitalised and expensed exploration and license costs

(a) Capitalised exploration and license costs

Amounts in NOK 1 000	Capitalised exploration and license costs
2010	
Cost:	
At 1.1.2010	9 382
Additions *	164 999
Disposals **	-52 016
At 31.12.2010	122 365
Amortisation and impairment:	
At 1.1.2010	0
Amortisation this year	0
Impairment this year **	52 016
Disposals **	-52 016
At 31.12.2010	0
Carrying amount at 31.12.2010	122 365

(*) Additions are mainly related to drilling of exploration well in license PL 433 where North Energy in addition to own share of 12% carry 8% of all expenses, and acquisition cost of license PL 341 recognised net of tax together with drilling of exploration well in license PL 341, where North Energy in addition to own share of 11% carry 7% of the drilling expenses for the first well.
(**) Disposals are related to impairment of capitalised expenses in license PL 341 due to dry well result.

Amounts in NOK 1 000	Capitalised exploration and license costs
2009	
Cost:	
At 1.1.2009	0
Additions ***	9 382
Disposals	0
At 31.12.2009	9 382
Amortisation and impairment:	
At 1.1.2009	0
Amortisation this year	0
Impairment this year	0
Disposals	0
At 31.12.2009	0
Carrying amount at 31.12.2009	9 382

(***) Additions in 2009 are mainly related to drilling of exploration well in license PL 433 where North Energy in addition to own share of 12% carry 8% of all expenses, and acquisition cost of license PL 433 recognised net of tax.

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

(b) Expensed exploration and license costs

Specification of expensed exploration and license costs:

Amounts in NOK 1 000	2010	2009
Share of exploration expenses from participation in licenses, incl. seismic, G&G, dry wells, carry	71 470	40 900
Impairment of capitalised exploration expenses	52 016	0
Seismic and other exploration costs	53 585	72 198
Total exploration and license costs	177 071	113 098

Note 19 Finance income and costs

Finance income:

Amounts in NOK 1 000	2010	2009
Interest income bank deposits	3 660	767
Interest income on tax refund	2 504	2 866
Other interest income	202	159
Foreign exchange gain	2 158	509
Other finance income	1	0
Total finance income	8 524	4 300

Finance costs:

Amounts in NOK 1 000	2010	2009
Interest expense	1 359	5 018
Foreign exchange loss	2 024	84
Financial items, Joint Ventures	1 337	7
Other finance costs	14	5
Total finance costs	4 734	5 113

Note 20 Financial instruments

(a) Categories of financial instruments

At 31 Desember 2010:

Amounts in NOK 1 000	Loans and receivables
Assets:	
Other non-current receivables [1]	11 931
Other current receivables	30 351
Cash and cash equivalents	49 366
Total	91 648

Amounts in NOK 1 000	Financial liabilities measured at amortised cost"
Liabilities:	
Trade creditors	46 200
Other current liabilities [2]	36 318
Current borrowings	0
Total	82 518

At 31 Desember 2009:

Amounts in NOK 1 000	Loans and receivables
Assets:	
Other non-current receivables [1]	6 410
Other current receivables	8 020
Cash and cash equivalents	45 671
Total	60 101

Amounts in NOK 1 000	Financial liabilities measured at amortised cost
Liabilities:	
Trade creditors	16 949
Other current liabilities [2]	12 142
Current borrowings	45 000
Total	74 091

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% (2009: 5.0%). The discount rate correspond to 10-year fixed-rate loans with the addition of relevant credit rating.

Amounts in NOK 1 000	2010	2009
Other non-current receivables	9 265	5 023

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 company does not have a system that separates receivables and loans on counterparty credit rating. Non-current receivables are mainly loans to employees. Loans to employees are repaid according to agreement and these loans have not been impaired in 2009 or 2010. Cash and cash equivalents are receivables from two banks, and Standard & Poor's credit rating of these banks is presented below:

Amounts in NOK 1 000	2010	2009
Bank deposits:	49 366	45 671

Amounts in NOK 1 000	2010	2009
No external credit rating	0	0
A	49 366	38 906
AA	0	6 765
Total	49 366	45 671

(d) Financial risk factors

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

Note 21 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 contain 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	2010	2009
Lease office premises (inclusive joint costs)	3 962	2 982
Lease machinery and office furniture	161	384
Lease cars	1 009	1 016
Total lease costs	5 131	4 382

Note 22 Pension

See note 22 in the consolidated financial statements.

Note 23 Contingent liabilities

The company has not been involved in any legal or financial disputes in 2010 or 2009, where adversely outcome is considered more likely than remote.

Note 24 Shares in licenses and obligations

Shares in licenses at 31 December 2010:

License	Share
PL 341	11 %
PL 385	15 %
PL 433	12 %
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 %

Obligations at 31 December 2010:

License	Share	Obligation	Expected time
PL 385	15 %	One firm well. Carry 7,5% of the total license cost until completion of the first well.	Well 4Q-2011/ 1Q-2012
PL 518	30 %	One firm well and one contingent well (2-1). Well 2 contingent of positive results in well 1.	First well 4Q-2011
PL 530	20 %	One firm well and one contingent well (2-1). Well 2 contingent of positive results in well 1.	First well 3Q-2011
PL 535	20 %	One firm well.	Well 2Q-2011

Shares in licenses at 31 December 2009:

License	Share
PL 385 *	15 %
PL 433	12 %
PL 510	20 %
PL 526	40 %
PL 518	30 %
PL 530	20 %
PL 535	20 %
PL 536	20 %

(*) The farm-in of a 15% interest in license PL385 from Statoil has been approved by Norwegian authorities in January 2010.

Obligations at 31 December 2009:

License	Share	Obligation	Expected time
PL 385	15 %	One firm well. Carry 7,5% of the total license cost until completion of the first well.	4Q-2010
PL 433	12 %	One firm well. Carry 8% of the total license cost until completion of the first well.	1Q-2010
PL 518	30 %	One firm well and one contingent well (2-1). Well 2 contingent of positive results in well 1.	First well 4Q-2011
PL 530	20 %	One firm well and one contingent well (2-1). Well 2 contingent of positive results in well 1.	First well 2011
PL 535	20 %	Acquire a minimum of 500 km^2 3D seismic and one firm well.	Seismic 2010, drilling 2011
PL 536	20 %	Acquire a minimum of 600 km^2 3D seismic.	2010

Note 25 Events after the balance sheet date

See note 26 in the consolidated financial statements.

Note 26 Reserves (unaudited)

See note 27 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 2010 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 Board of 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, 12 April 2011

Johan Petter Barlindhaug
Chairman

Kristin Ingebrigtsen
Board member

Ole Njærheim
Board member

Guri Helene Ingebrigtsen
Board member

Leif W. Finsveen
Board member

Arnulf Østensen
Board member

Hans Kristian Rød
Board member

Heidi Marie Petersen
Board member

Jørn Olsen
Board member

Erik Karlstrøm
CEO

Revisors beretning

PricewaterhouseCoopers AS
Postboks 6128
NO-9291 Tromsø
Telefon 02316

Til generalforsamlingen i North Energy ASA

Revisors beretning

Uttalelse om årsregnskapet

Vi har revidert årsregnskapet for North Energy ASA som består av selskapsregnskap og konsernregnskap. Selskapsregnskapet og konsernregnskapet består av balanse per 31. desember 2010, resultatregnskap, utvidet resultatregnskap, endringer i egenkapital og kontantstrøm for regnskapsåret avsluttet per denne datoen, og en beskrivelse av vesentlige anvendte regnskapsprinsipper og andre noteopplysninger.

Styret og daglig leders ansvar for årsregnskapet

Styret og daglig leder er ansvarlig for å utarbeide årsregnskapet og for at det gir et rettvisende bilde i samsvar med International Financial Reporting Standards som fastsatt av EU, og for slik intern kontroll som styret og daglig leder finner nødvendig for å muliggjøre utarbeidelsen av et årsregnskap som ikke inneholder vesentlig feilinformasjon, verken som følge av misligheter eller feil.

Revisors oppgaver og plikter

Vår oppgave er å gi uttrykk for en mening om dette årsregnskapet på bakgrunn av vår revisjon. Vi har gjennomført revisjonen i samsvar med lov, forskrift og god revisjonsskikk i Norge, herunder International Standards on Auditing. Revisjonsstandardene krever at vi etterlever etiske krav og planlegger og gjennomfører revisjonen for å oppnå betryggende sikkerhet for at årsregnskapet ikke inneholder vesentlig feilinformasjon.

En revisjon innebærer utførelse av handlinger for å innhente revisjonsbevis for beløpene og opplysningene i årsregnskapet. De valgte handlingene avhenger av revisors skjønn, herunder vurderingen av risikoene for at årsregnskapet inneholder vesentlig feilinformasjon, enten det skyldes misligheter eller feil. Ved en slik risikovurdering tar revisor hensyn til den interne kontrollen som er relevant for selskapets utarbeidelse av et årsregnskap som gir et rettvisende bilde. Formålet er å utforme revisjonshandlinger som er hensiktsmessige etter omstendighetene, men ikke for å gi uttrykk for en mening om effektiviteten av selskapets interne kontroll. En revisjon omfatter også en vurdering av om de anvendte regnskapsprinsippene er hensiktsmessige og om regnskapsestimatene utarbeidet av ledelsen er rimelige, samt en vurdering av den samlede presentasjonen av årsregnskapet.

Etter vår oppfatning er innhentet revisjonsbevis tilstrekkelig og hensiktsmessig som grunnlag for vår konklusjon.

Konklusjon

Etter vår mening er årsregnskapet avgitt i samsvar med lov og forskrifter og gir et rettvisende bilde av selskapet og konsernet North Energy ASA' finansielle stilling per 31. desember 2010 og av deres resultater og kontantstrømmer for regnskapsåret som ble avsluttet per denne datoen i samsvar med International Financial Reporting Standards som fastsatt av EU.

Uttalelse om øvrige forhold

Konklusjon om årsberetningen

Basert på vår revisjon av årsregnskapet som beskrevet ovenfor, mener vi at opplysningene i årsberetningen om årsregnskapet, forutsetningen om fortsatt drift og forslaget til dekning av tap er konsistente med årsregnskapet og er i samsvar med lov og forskrifter.

Konklusjon om registrering og dokumentasjon

Basert på vår revisjon av årsregnskapet som beskrevet ovenfor, og kontrollhandlinger vi har funnet nødvendig i henhold til internasjonal standard for attestasjonsoppdrag ISAE 3000 "Attestasjonsoppdrag som ikke er revisjon eller begrenset revisjon av historisk finansiell informasjon" mener vi at ledelsen har oppfylt sin plikt til å sørge for ordentlig og oversiktlig registrering og dokumentasjon av selskapets regnskapsopplysninger i samsvar med lov og god bokføringsskikk i Norge.

Tromsø, 15. april 2011
PricewaterhouseCoopers AS

Kent-Helge Holst

Kent-Helge Holst
Statsautorisert revisor

Terms and expressions

- **HSE** – Health, Safety and the Environment
- **PL** – production licence
- **PDO** – Plan for Development and Operation that is submitted to the authorities for approval
- **APA** – Allocation of Predefined Areas, an annual licensing round in mature sections of the Norwegian continental shelf
- **NPD** – Norwegian Petroleum Directorate
- **PSAN** – Petroleum Safety Authority Norway
- **MPE** – Ministry of Petroleum and Energy
- **SPE** – Society of Petroleum Engineers
- **G&G** – Geology and Geophysics
- **2D seismology** – powerful echo sounder that receives reflected subsurface sound from along straight lines
- **3D seismology** – like 2D seismology, but the sound is captured by a network of receivers, so that a three-dimensional underground picture can be created. Smaller oil traps can often only be surveyed with 3D seismology.
- **EM** – electromagnetic surveys (also referred to as seabed logging). This is set up as an electromagnetic field on the seabed or in the sea that measures underground electrical resistivity.
- **AMI** – Area of Mutual Interest, formal licence application cooperation
- **Prospect** – a defined volume that is surveyed, where it is probable that hydrocarbons are present
- **Reserves** – proven petroleum that will definitely be produced in accordance with the SPE Standard
- **Resources** – Proven petroleum that will not definitely be produced, as well as estimates of petroleum in surveyed prospects that have not yet been drilled. Classified in accordance with the Norwegian Petroleum Directorate's definitions. **P10**, **P50**, **P90** – 10 per cent, 50 per cent and 90 per cent probability, respectively
- **1 Sm^3** – a standard cubic metre = 6.293 barrels of oil. 1 Sm3 of oil corresponds to 1000 Sm^3 of gas (an oil equivalent or o.e.)
  1 barrel of oil – a tierce, which corresponds to 1 drum = 42 gallons ≈ 159 litres.

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