north energy

Annual Report

Board of Director's Annual Report and Financial Statements 2009

Our values

- To be at the forefront
- Competent
- A Bridge-builder
- A fearless voice in the north

Vigdis Wiik Jakobsen, Andøy, (photo: Christina Søgård)

Content

Key figures 2009

	2009	2008	2007
No. of shares in licences as at 31.12	8	2	0
Operatorships	1	0	0
Exploration costs (MNOK)	113,1	42,0	17,6
Operating results (MNOK)	-207,6	-140,8	-24,6
Profit/loss after tax (MNOK)	-64,4	-39,3	-10,6
Cash flow from operating activities (MNOK)	-80,8	-106,3	-22,7
Cash flow from investment activities (MNOK)	-14,8	-16,5	-5,5
Cash flow from financing activities (MNOK)	128,0	117,5	46,8
Book shareholders' equity (MNOK)	152,9	108,9	40,0
No. of shares	9 200 970	581 122	15 000
Face value per share (NOK)	1,0	10,0	100,0
No. of employees as at 31.12	38	33	1

Photo: Andøy, 2009 (Christina Søgård)

Our history - milestones

✓ 4 September 2007:	The North Energy AS company was established
✓ August 2008:	Prequalified as licence holder on the Norwegian Continental Shelf
✓ December 2008:	Assigned two holdings in TFO 2008
✓ March 2009:	Prequalified as operator on the Norwegian Continental Shelf
✓ April 2009:	Assigned operatorship and 4 licences in 20th licensing round
✓ July 2009:	Purchase of 12% of PL 433 from Centrica
✓ December 2009:	Purchase of 15% of PL 385 from Statoil
✓ December 2009:	North Energy converted to ASA (public limited company) in preparation for flotation on the Stock Exchange
✓ December 2009:	Application for registration on the Oslo Axess list approved by the Board of the Stock Exchange
✓ January 2010:	Assigned three licences in TFO 2009
✓ February 2010:	Successful share issue implemented
✓ February 2010:	North Energy quoted on the Oslo Axess list
✓ February 2010:	Purchase of 4sea energy AS. Includes 2 licences in the North Sea
✓ March 2010:	Drilling starts in PL 433 as the first in which North Energy is a partner
✓ April 2010:	Discovery of Hydrocarbons in PL 433

Our vision

The purpose of the company is to create a return for its shareholders and to run affiliated operations onshore through involvement in oil exploration, extraction, development and production activities off the coast of central and northern Norway.

North Energy's objective is to be a profitable and leading oil and gas company, focusing on areas in the Arctic.

The company's core business encompasses the development of forward-looking solutions for profitable, sustainable petroleum activities in northern Norway, including making preparations for operations onshore.

Our values

- To be at the forefront
- Competent
- A bridge-builder
- A fearless voice in the north

CEO, Erik Karlstrøm

2009 was an extremely important year for North Energy. During the course of this year, the company built the core of the portfolio which will provide the company with eight wells that have a high probability of discovery. The year began with highly ranked allocations of 4 licences in the 20th licensing round, continued with the purchase of shares in two licences, the takeover of the company, 4sea Energy, and two new shares there, and finally - three licence allocations in January 2010. In a little over a year, North Energy's portfolio increased from 2 to 13 licences.

For a recently established exploration company, the access to attractive exploration acreage constitutes the most important factor for success in value creation. The allocation of operatorships off the coast of Helgeland was also an important signal from the public authorities that North Energy has another role to play than most small oil companies that still exist as independent companies on the Norwegian Continental Shelf. The time from when the company qualified as a licence-holder in autumn 2008 until it qualified as an operator (March 2009) is the fastest in which a new company on the Norwegian Continental Shelf has covered that distance.

It is access to capital, and not the number of licences that determines which of the smaller oil companies are still in existence after two years of turbulence on the financial markets. First and foremost, 2009 was the year in which North Energy prepared for a capital acquisition on the international capital market.

Being quoted on the Oslo Axess list gave access to capital markets outside Norway in the development of North Energy as a national company, but with a solid base in northern Norway.

Of the new capital, a large proportion comes from professional international investors. These investors see North Energy already as a national player close to some of the world's most promising areas for new oil and gas discoveries. The NOK 400 million in new shareholders' equity, which was released through the share issue, is intended to finance the company into the development phase.

The quality of the rapidly growing portfolio is more important than the quantity. The owners hold out expectations for a probability of more than 90% for at least one discovery, and that the portfolio will most probably produce two or three discoveries with production before 2018. At the time of writing, North Energy has already made one discovery in its first well. If calculations show that commercial production can take place, it can be stated that North Energy is ahead of plan.

It is important to try to create greater value in 2010 than in 2009, although the values that were created in 2009 are not quantifiable today.

With the exception of the licensing optimisation that form the engine powering the company's growth, 2010 will be more about becoming a more distinct player with a stronger reputation throughout northern Norway. This is a matter of both playing an active role in the issue of Lofoten and Vesterålen, and of offshore Helgeland.

In Lofoten and Vesterålen, North Energy can play the role of reliable bridge-builder between industry and the people who will be affected by the possible changes that new activity in coastal areas might involve. Part of this role is to study new technology and to try to customise existing technology for new problems facing existing business activities and competition for acreage at sea.

The petroleum industry appears to undervalue the importance of having on side those people who live along the coast before the politicians finally take a stand on the matter of growth and protection in 2010. A minimum requirement then is to provide information about the potential consequences of using various technologies for the people living there, and other effects as a result of oil and gas activities coming closer to the shore in the north.

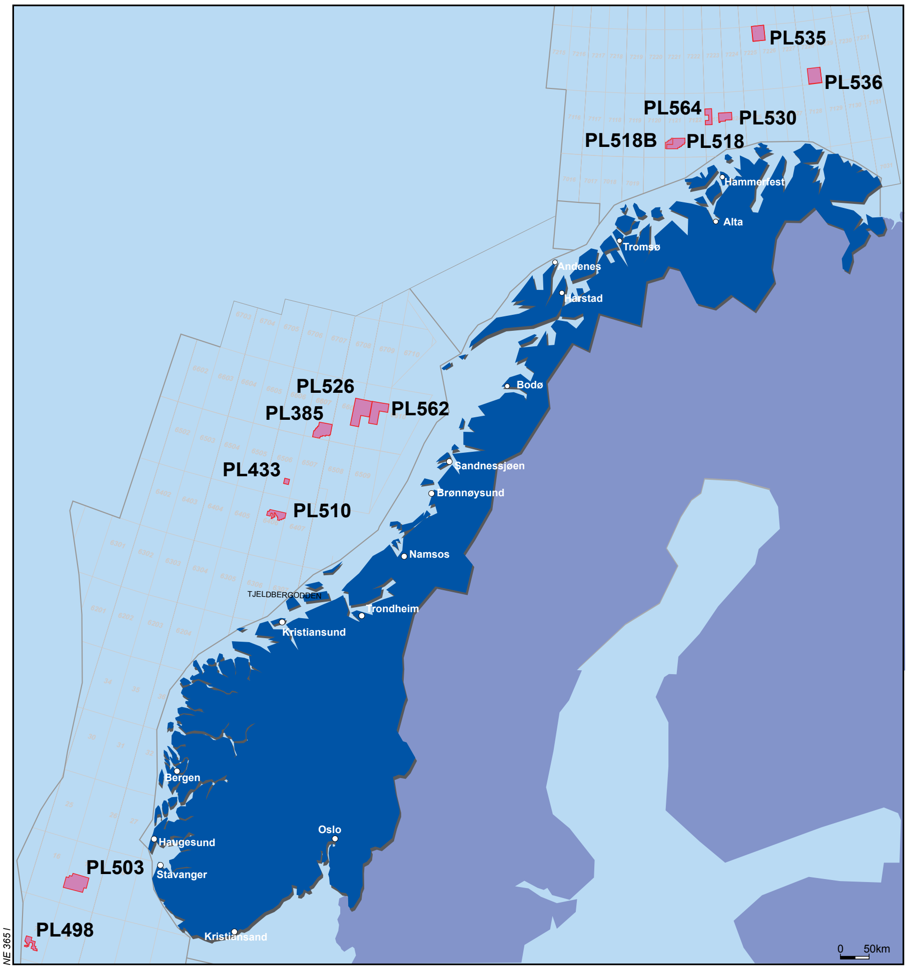
The areas of concentration to be prioritised in 2010 will be:

- Concentration on the rounds – good allocations ahead of many allocations
- Lofoten and Vesterålen - from long-term concentration to concrete partici pation throughout northern Norway
- Preparation for operator role
- Ambitions for growth and portfolio optimisation

In short, 2008 was the year for building competence, 2009 for building the portfolio and, early in 2010, the capital arrived which puts North Energy in a position to change from being a regional player with its head office in Alta, to being a player on the national stage. In addition, in line with its strategy, North Energy has established close contacts and has developed relationships with central Russian players in order to be in position once the accord on the dividing line in the Barents Sea is finally in place.

Exploration activities

North Energy is now a participant in 13 licences in the North Sea, the Norwegian Sea and the Barents Sea, and was allocated an operatorship on the Helgeland coast in the 20th licensing round.



Summary of North Energy's licences on the Norwegian Continental Shelf

To develop North Energy as a sustainable oil company, the company seeks to have a balanced portfolio. In the short term, the company is looking for acreage that will be help enable the company rapidly to reach the production stage, and in the longer term, the focus will be on securing reserves to provide the company with further growth and make it into a major player on the Norwegian Continental Shelf.

Licence history

Two licences were allocated in TFO 2008 (December 2008):

1. 30% in PL 518 – Barents Sea
2. 20% in PL 510 – Norwegian Sea

Four licences, including operatorship, were allocated in the 20th licensing round (April 2009):

3. 20% in PL 530 – Barents Sea
4. 20% in PL 535 – Barents Sea
5. 20% in PL 536 – Barents Sea
6. 40% in PL 526 – Norwegian Sea

Two farm-ins:

7. 12% in PL 433 from Centrica (July 2009) – Norwegian Sea
8. 15% in PL 385 from Statoil – Norwegian Sea

Three licences were allocated in TFO 2009 (January 2010):

9. 30% in PL 518B – Barents Sea
10. 10% in PL 562 – Norwegian Sea
11. 20% in PL 564 – Barents Sea

Two licences through the takeover of 4sea Energy (February 2010):

12. 25% in PL 498 – North Sea
13. 25% in PL 503 – North Sea

Norwegian Sea

PL 385 Jette prospect

North Energy took over a 15% share from Statoil in 2009. The Jette prospect is located in an area on the Dønna Terrace that has had many significant oil and gas discoveries including Marulk, Alve, Norne and Skarv.

Licence 385 covers the Jette prospect plus several leads. The Jette structure contains several potential reservoir levels. The plan is to drill the main Jette prospect in October 2010.

Partners: North Energy ASA, Wintershall Norge AS, Norwegian Energy Company ASA, Statoil Petroleum AS.
Operator: Statoil Petroleum AS.

PL 433 Fogelberg

North Energy took over a 12% share from Centrica in 2009. The Fogelberg prospect is located northwest of Åsgard and immediately north of the Morvin discovery.

The Fogelberg prospect has been drilled, and there is proof that hydrocarbons are present (April 2010).

Partners: North Energy ASA, E.ON Ruhrgas Norge AS, Faroe Petroleum Norge AS, Centrica Resources (Norge) AS, Petro-Canada Norge AS.
Operator: Centrica Resources (Norge) AS.

PL 510 Toto/Dorothy

North Energy's share is 20%. The licence includes five prospects that are of commercial interest. All of the prospects are located close to the infrastructure at Kristin and Åsgard. Toto/Dorothy is regarded as being the most important prospect in the licence.

The scope of work in the licence is to reprocess 3D seismology. New reprocessed data will be available in April 2010. Based on the new seismology, the partnership in the licence will form an opinion in October 2010 about whether to drill a well or whether the acreage should be handed back.

Partners: North Energy ASA, E.ON Ruhrgas Norge AS, Faroe Petroleum Norge AS, Centrica Resources (Norge) AS.
Operator: Centrica Resources (Norge) AS.

PL 526 Vågar

North Energy owns 40% and is the operator within this licence. The Vågar structure is one of the last major untested structures along a trend of the Nordland Ridge in which most of the discoveries in the area have been made.

The scope of work covers the reprocessing of all 3D data within the allocated acreage. This is a project that started in September 2009, and which will be completed in May 2010. A decision on drilling or handing back the acreage will be taken towards the end of 2010.

Partners: E.ON Ruhrgas Norge AS, Dana Petroleum Norway AS, Norwegian Energy Company ASA, North Energy ASA.
Operator: North Energy ASA.

PL 562 Lepus
North Energy's share is 10%. The licence is located on the Nordland Ridge, immediately east of North-operated PL 526. The scope of work is to acquire 3D data and to perform geological studies. An opinion must be formed as to whether a well should be drilled or whether the acreage should be handed back within three years of allocation.

Arbeidsforpliktelsen er å samle inn 3D-data og utføre geologiske studier. Det må tas stilling til om det skal bores en brønn eller om arealet skal tilbakeleveres innen tre år fra tildeling.

Partners: North Energy ASA, Petoro AS, E.ON Ruhrgas Norge AS, Norwegian Energy Company ASA, Dana Petroleum Norway AS.
Operator: Dana Petroleum Norway AS.

Barents Sea

PL 518 Tana
North Energy's share is 30%. The licence is located in the southern part of the Hammerfest Basin between the Alke and Goliat discoveries within an area in which several discoveries have been made. The licence contains several prospects and leads, but the Tana prospect is regarded as the most interesting.

3D seismology has been gathered and will be ready in June 2010. The licence has an obligation well (2-1) which will be drilled in the fourth quarter of 2011.

Partners: Sagex Petroleum Norge AS, Discover Petroleum AS, North Energy AS, DONG E&P Norge AS.
Operator: DONG E&P Norge AS.

PL 518B
North Energy owns 30%. The licence is an additional acreage to PL 518 and is located in the southern part of the Hammerfest Basin.

There is no scope of work allocated for the PL 518B licence beyond that which exists for PL 518.

Partners: Sagex Petroleum Norge AS, Discover Petroleum AS, North Energy ASA, DONG E&P Norge AS.
Operator: DONG E&P Norge AS.

PL 530 Heilo
North Energy's share is 20%. The Heilo prospect (including Heilo West) is located in the southern part of the Hammerfest Basin between the Goliat and Nucula discoveries. The Heilo structure is one of the last structures in the series of structures within this exploration trend.

There is an obligation well in this licence. This licence is ready for drilling, but is awaiting a rig slot for drilling. The operator's plan is for drilling in 2011.

Partners: North Energy ASA, Discover Petroleum AS, Rocksource ASA, GDF SUEZ E&P Norge AS.
Operator: GDF SUEZ E&P Norge AS.

PL 535 Norvarg
North Energy owns 20%. The Nordvarg prospect is located between the Ververis discovery and east of the Arenaria discovery.

A seismic 3D data set is to be acquired for the prospect before February 2010. There is an obligation well in this licence. Drilling of this well is planned for 2011.

Partners: Det norske oljeselskap AS, North Energy ASA, Rocksource ASA, Total E&P Norge AS.
Operator: Total E&P Norge AS.

PL 536 Elbrus
North Energy's share is 20%. The Elbrus prospect is located along the southern flank of the North Cape Basin. The prospect contains several potential reservoir levels. Discoveries have been made in several of these levels in the Pandora structure in the central part of the North Cape Basin north of the Elbrus prospect.

The scope of work for Elbrus covers the gathering of 3D seismology. These data will be gathered in 2010. A decision on drilling or handing back the acreage must be taken before fourth quarter 2011.

Partners: Petoro AS, North Energy ASA, Discover Petroleum AS, Statoil Petroleum AS.
Operator: Statoil Petroleum AS.

PL 564
North Energy's share is 20%. The Alta prospect is located 10 kilometres north-west of the Tornerose discovery.

The scope of work is to acquire 3D seismology and to perform geological studies. An opinion must be formed as to whether a well should be drilled on the licence or whether the acreage should be handed back within two years of allocation (TFO 2009).

Partners: North Energy ASA, Wintershall Norge ASA, OMV (Norge) AS.
Operator: OMV (Norge) AS.

North Sea

PL 498 Skagen
With the company 4sea Energy, North Energy took over a 25% share . The Skagen prospect is located northwest of the Krabbe discovery and west of the Ula field which will be able to contribute with infrastructure for production in the event that a discovery is made. The licence may contain a small section of the northern part of the Krabbe structure.

The remaining scope of work in the licence is to bring leads and prospects to maturity to provide the partnership with a good foundation on which to base a decision as to whether to drill or hand back the entire acreage or parts of it in 2010.

Partners: Edison International Norway Branch, 4Sea Energy AS, Skagen 44 AS, Lotos Exploration and Production Norge AS.
Operator: Lotos Exploration and Production Norge AS.

PL 503 Valberget
With the company 4sea Energy, North Energy took over a 25% share . The Valberget prospect is located in the northern Permian Basin in the eastern part of the North Sea.

The scope of work, which covers the decision as to whether 1000 km2 of 3D seismology should be gathered, was agreed in October 2009. Based on a re-evaluation of the new G&G data, a decision must be made about drilling or handing back the acreage towards the end of 2012.

Partners:Edison International Norway Branch, 4Sea Energy AS, Skagen 44 AS, Lotos Exploration and Production Norge AS.
Operator: Lotos Exploration and Production Norge AS.

Photo: Fieldtrip in June 2009, Vigdis Wiik Jacobsen (Torleiv Agdestein)

Business development

In parallel with its work on the licensing rounds, North Energy has also been actively approaching other companies to be allowed to purchase shares in licences that have already been allocated.

During the course of 2009, North Energy expanded its licence portfolio in this way, with two licences which we have bought into. Both of those licences (PL 433 and PL 385) are located in the Norwegian Sea close to existing infrastructure (Åsgard and Norne). In PL 433, discoveries have been made in the Fogelberg prospect, and further evaluations will determine whether this discovery will be developed for production.

The well in PL 385 in the Jette prospect will probably be drilled in late 2010 or early 2011. A discovery in this licence will most probably be phased in towards Norne.

North Energy will be continuing its work within business development with the objective of acquiring licences what can produce early wells, and to optimise its portfolio of licences.

Health, environment and safety

In 2009, North Energy performed HES activities in compliance with its HES programme for the year. This has included the implementation of the company health service, safety representatives and the work environment committee (AMU). 3 AMU meetings have been held during the course of the year. In addition, there has been an HES survey and an ergonomic survey/consultancy in the offices, as well as occupational health checks for all employees. As part of the work to prevent repetitive injuries, the employees are regularly offered physiotherapy and massage.

The company has also been working on the management system in 2009, aimed at the operator role. At the same time, an environmental study has been carried out on Værøy and Røst in which North Energy, together with a specialist team, has documented areas and localities of natural and cultural importance, in conjunction with environmental analyses and emergency preparedness assessments.

North Energy believes that good emergency preparedness is particularly important for the environment in the Arctic regions. For that reason, in 2009, the company carried out a technological review, documented by means of two reports, of previous experience of emergency preparedness close to the coast, and how this emergency preparedness can be developed further, made operational and reinforced. North Energy has renamed the model "Kjentmannsmodellen" [Local Knowledge Model]. A project manager has been appointed to follow up this project and related activities concerning the fishing industry.

We believe it is important to take a step-by-step approach, with regard to a possible opening of Nordland VI, VII and Troms II, and North Energy would like to specify the conditions for an opening of this type. In this context, the company has carried out a study of petroleum provinces in the Lofoten, Vesterålen and Troms sea areas involving technological development solutions, opportunities for bringing the petroleum ashore, as well as environmental and community consequences. Problems and possibilities are sketched out as a basis for strategic choices for actually contributing to making preparations for opening up these areas to petroleum operations in a safe and balanced way.

Photo: Teambuilding, Astrid Tugwell (Christina Søgård)

Management and business functions

During the course of 2009, North Energy grew from approx. 33 to 38 employees. The majority of employees are involved in the exploration side. During 2009, the company established a drilling organisation directed towards the operatorship in licence PL526 at Helgeland.
The company has modern offices in the centre of Alta, a branch office in Oslo and satellite offices in Bergen, Stavanger and Honningsvåg.

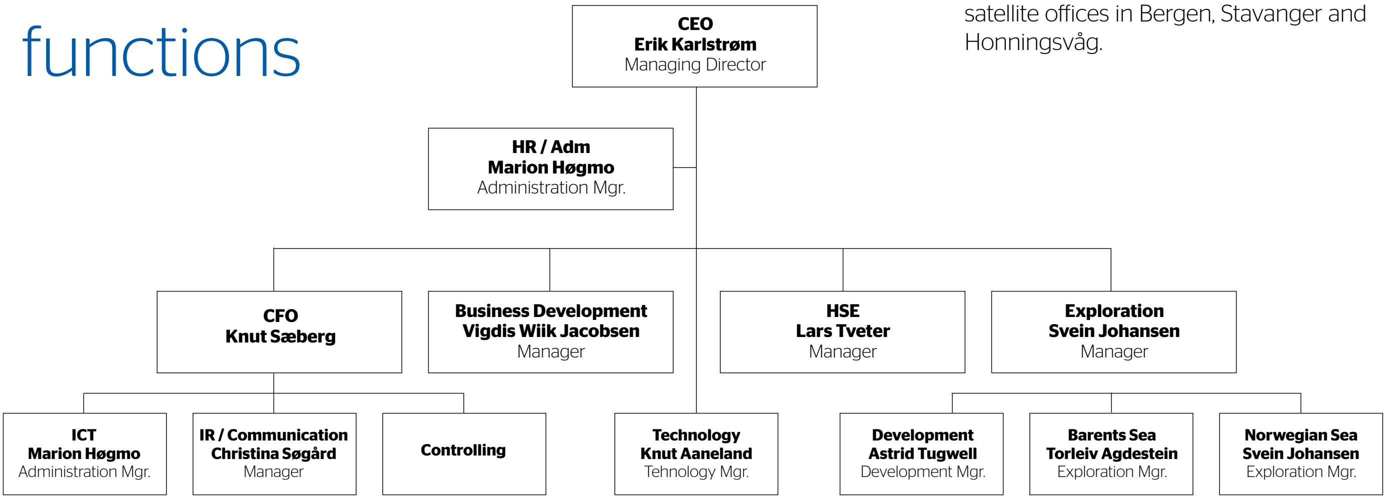


Fig. Organisation chart - North Energy

Investor information

North Energy ASA was listed on the Oslo Stock Exchange on 5 February 2010 under ticker code NORTH. For the company, the evaluation provided on the market is important feedback, and working closely with current and future investors is given high priority. Openness, reliability and trust are features that shall characterise the company in its investor relations and in all information issued by the company.

Since the company was listed, the price per share has been between NOK 22 and NOK 27.

Top 20 shareholders – 18th May 2010

	NAME	NO OF SHARES	
1.	UBS AG, LONDON BRANC S/A IPB SEGREGATED C	2 406 500	9,6 %
2.	SKS EIENDOM AS	1 824 920	7,3 %
3.	JPB AS	1 336 610	5,3 %
4.	ORIGO KAPITAL AS	1 248 100	5,0 %
5.	ONSHORE GROUP NORDLA	933 340	3,7 %
6.	CITIBANK N.A. (LONDO A/C POHJOLA BANK PLC	753 200	3,0 %
7.	IHM HOLDING AS	739 929	2,9 %
8.	SKANDINAVISKA ENSKIL A/C FINNISH RESIDENT	671 700	2,7 %
9.	KAPNORD FOND AS	640 000	2,5 %
10.	ALTA KRAFTLAG A/L	600 230	2,4 %
11.	THE NORTHERN TRUST C USL EXEMPT ACCOUNT	564 900	2,2 %
12.	IKM INDUSTRI-INVEST	545 648	2,2 %
13.	NINERIK AS	516 735	2,1 %
14.	MORGAN STANLEY & CO S/A MSIL IPB CLIENT	505 346	2,0 %
15.	THE NORTHERN TRUST C NORTHERN TRUST GUERN	442 204	1,8 %
16.	LEONHARD NILSEN & SØ	431 210	1,7 %
17.	DNB NOR SMB VPF	423 500	1,7 %
18.	GOLDMAN SACHS INT. - SECURITY CLIENT SEGR	407 783	1,6 %
19.	CACEIS BANK S/A GRD 10 THS	406 630	1,6 %
20.	BANK OF NEW YORK MEL TREATY ACCOUNT UNITE	320 000	1,3 %

Financial calendar 2010

25 Feb 2010	Reporting 4th quarter 2009
12 May 2010	Reporting 1st quarter 2010
20 May 2010	Ordinary general meeting
19 Aug 2010	Reporting 2nd quarter 2010
12 Nov 2010	Reporting 3rd quarter 2010

All results submitted are laid out as a webcast and are available on the company's website **www.northenergy.no**

Photo: Anita Zych-Kotwicka from North Energy during Finnmarksløpet where the company is a main partner (Agnieszka Kania)

Corporate governance

Statement on corporate governance

North Energy practises corporate governance in compliance with Norwegian company law and Norwegian recommendations for corporate governance, last revision 21 October 2009.

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

- To be at the forefront
- Competent
- Bridge-builder
- Fearless voice in the north

It is the task of the management to ensure that the areas of responsibility are, individually and combined, given priority, based on North Energy's basic values and in compliance with Norwegian recommendations for corporate governance.

1. Business activities

In its Articles of Association, North Energy has clear frameworks for its business activities, while visions, objectives and strategies are embedded in the company's management system. Throughout 2009, this was made even more tangible because of the work that the Board of Directors and the administration put in ahead of the company's flotation on the Oslo Stock Exchange.

2. Share capital

The company's share capital shall be adapted its objectives, strategies and risk profile. North Energy has not paid any dividend and is not expected to pay any dividend for the next few years.

3. Equal treatment of shareholders and transactions with related parties

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 employees 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 Managing Director and the Board of Directors and, when required, it must also be reported to the market.

4. Free salability

The North Energy share is quoted on the Oslo Axess list. All shares are freely salable. There are no restrictions determined in its Articles of Association concerning the salability of the share.

5. Annual general meeting

The company's annual general meeting in 2009 were held in compliance with Norway's Companies Act. The annual general meeting resolved in December 2009 to convert the company to an ASA (public limited company). After that time, Norway's Public Limited Companies Act formed the basis for implementation of annual general meetings.

The annual general meeting is the North Energy's highest decision-making organ. The Board endeavours to ensure that the annual general meeting is an effective forum for communication between the Board and the company's shareholders. On the part of the Board, preparations are therefore made for the maximum participation of the company's shareholders at the annual general meeting. Invitations and case documentation are made available on the company's Internet site no later than 21 days before the annual general meeting.

The Board sets the agenda for the annual general meeting. However, the most important items on the agenda result from the Public Limited Companies Act and from the company's Articles of Association.

6. Election committee

The election committee's duties are to provide a reasoned recommendation to the annual general meeting concerning the election to the Board of members chosen by shareholders, and to suggest a Chair and Deputy Chair. The election committee shall also table proposals for fees payable to members of the Board and to propose members for the election committee. The election committee's work is regulated by instructions from the annual general meeting.

Payment to the election committee is a fixed sum which is not dependent on operating results. The annual general meeting is the decision-making organ for all recommendations tabled by the election committee.

7. Shareholder Board and Board of Directors, composition and independence

North Energy has chosen not to have a Shareholder Board.

The organisational structure of the Board of Directors conforms to the Public Limited Companies Act and is composed of 3 women and 5 men, all of whom have wide-ranging experience. The Board Members represent both industry-specific expertise and professional expertise from national and international companies.

North Energy understands that all Board Members are independent of the company's management and essential business connections. At present, 3 of the Board Members own shares in North Energy directly or indirectly. None of the Board Members possess options to purchase more shares.

8. The work of the Board

The work of the Board is governed by instructions to the Board. In principle, the work consists of administering North Energy, including the establishment of the company's strategy and overall objectives, undertaking programmes of action and ensuring a justifiable organisation of the business in line with the company's Articles of Association. The Board can also set guidelines for the business and give orders in individual cases. The Board shall administer North Energy's interests as a whole and not behave as individual shareholders.

There is a clear division of responsibility between the Board and the day-to-day management. The Managing Director is responsible for the operational management of the company and makes regular reports to the Board.

The Board carries out an evaluation of its work, competence and performance on an annual basis.

19 Board meetings were held in 2009.

9. Risk management and internal controls

North Energy's business is subject to a management system that encompasses all areas within which the company operates. The management system is divided into three levels, in which level 1 describes the company's visions, objectives, strategies and organisation. Level 2 describes business processes, while at level 3 necessary work instructions and other supporting documentation are given.

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. Exceptions are systematically monitored and corrective measures implemented.

10. Remuneration to the Board

The election committee proposes. to the Annual General Meeting, remuneration for members of the Board and takes into consideration responsibilities, qualifications, time consumption and complexity. None of the Board's members have duties in the company apart from that which is evident from this report.

11. Remuneration to senior employees

The Board establishes the salaries for the Managing Director and takes into consideration responsibilities, qualifications, complexity and results achieved. The Board also establishes the principles for salaries for other senior employees within the company, and these are reported at the annual general meeting. All employees have the same performance-based bonus arrangements. Further information is made clear in the notes to the annual accounts.

12. Information and communicatio

North Energy regularly keeps shareholders and investors informed of commercial and financial status. The requirement for information of this type has increased because of the flotation of the company on the stock exchange and the expansion of the body of shareholders. The Board is concerned with 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 Internet site www.northenergy.no. Stock exchange notices will be distributed via Hugin at www.newsweb.no.

North Energy's annual accounts will be made available on the company's website 3 weeks before the annual general meeting, at the latest. Quarterly reports are made public within 2 months of the end of the quarter. Quarterly presentations are transmitted directly over the Internet. North Energy publishes an annual financial calendar which is available on the Oslo Stock Exchange website.

The Board places stress on openness and equality of treatment in relation to all players on the market and strives always to provide as correct a picture of the company's financial position as possible.

13. 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 concordance with its general responsibility for the administration of North Energy, the Board will act in the best interests of all of the company's shareholders in a situation of this type.

14. Auditor

The annual accounts are audited. The Board receives and processes reports from the auditor after the annual accounts for the year in question have been audited. The auditor submits an annual plan for implementing the auditing work, and participates in Board meetings in which the processing of accounts requires the presence of the auditor. The auditor submits a statement about independence and objectivity. The Board studies this to ensure that the auditor fulfils a satisfactory and independent control function. The Board submits the auditor's report to the annual general meeting which also approves the auditor's fee.

Photo: Thinh Vu, Fieldtrip in June 2009 (Svetlana Boborykina)

Board of Directors' Annual Report

North Energy

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

North Energy is headquartered in Alta and has branch offices in Oslo and Stavanger.

Through the 20th licensing round, which was allocated in May, North Energy obtained partnerships in four licences, of which an operatorship on PL 526. In addition the company obtained three licences via TFO 2009, which was allocated in January 2010. Of these seven licences, five are in the Norwegian Sea and two in the Barents.

The main focus in 2009 has been on surveying of exploration areas in connection with licence applications, management of allocated licences and adjustment of the exploration portfolio.

In addition the company has worked on a capital extension to finance the planned exploration programme up to and including 2012. This resulted in a successful share issue being held on 3 February 2010. North Energy was quoted on Oslo Axess on 5 February 2010 and, in preparation for this, was converted into a public limited company in November 2009.

In the autumn of 2009 North Energy negotiated an agreement with the owners of 4sea energy AS to take over all the shares in that company against payment in shares in North Energy. The transaction was finalised in February 2010. 4sea energy owns two licences in the North Sea.

Through 2009 North Energy has bought ownership interests in two licences in the Norwegian Sea. In all, North Energy therefore has ownership interests in 13 licences and is an operator on one of them.

North Energy is working to contribute to enhanced local wealth creation and good industrial solutions. It lays particular weight on studying the potential for positive coexistence between exploration and production activity and other economic activity in the Lofoten and Vesterålen archipelagos.

Going Concern

In conformity with Section 3-3a of the Accounting Act, it is hereby confirmed that the assumptions for going-concern are present. This conclusion is based on profit prognoses for 2010 and the company's long-term strategic prognoses.

Future developments

Since start-up in 2007, North Energy's main objectives have been developing a strong organisation, allocation and purchase of good licences, implementation of the exploration programme and investment in field development and production. It is one of the aims of North Energy to contribute to local wealth creation as the oil industry moves northwards.

North Energy was working through 2009 on a share issue intended to finance a defined eight-well exploration programme. Under this programme it is planned to drill three holes in 2010, three in 2011 and two in 2012. The issue was fully-subscribed and strengthened North Energy's equity by NOK 350 million. In addition, North Energy has taken over all the shares in the company 4sea energy AS against issue of shares in North Energy. At the beginning of 2010 4sea energy had cash and tax refunds of almost NOK 50 million, which serves to strengthen North Energy's own capital base further.

Together with available funds from previous issues, plus the exploration loan that the company negotiated with the Swedish bank Svenska Enskilda Banken, North Energy has fully-financed the planned exploration programme. The Board considers North Energy's liquidity to be satisfactory.

The exploration programme began in February 2010 with Licence 433, on which Centrica Energi is operator. North Energy is participating with an ownership interest of 12%.

North Energy intends to participate in future licensing rounds. On the basis of good exploration expertise and strong financing, it is quite ambitious about good allocations. The Board is concerned that the work of strengthening and optimis-

Photo: Employees in North Energy (Christina Søgård)

ing the portfolio and the company will therefore evaluate opportunities for purchase and sale of licences. North Energy is furthermore active in the discussions about opening up controversial exploration areas in the north; the company has led analyses that may contribute to such controversial areas being opened without conflict with local interests. The company will continue to play an active role in the analyses and discussions that will take place regarding these areas.

Description of the annual accounts

The company has no sales. Pre-tax results in 2009 were a loss of NOK 208.4 million, compared with the 2008 loss of NOK 140.3 million. The profitability trend reflects the fact that the company has been in a development phase in which the number of licences increased to eight at the end of 2009. Licence and exploration costs account for most of the loss, having increased from NOK 62.8 million in 2008 to NOK 113.1 million in 2009. The HR costs in 2009 were NOK 62.4 million as compared with NOK 42.0 million in 2008.

Loss after tax in 2009 was NOK 64.4 million compared with NOK 39.3 million the preceding year.

Of the total balance sheet of NOK 242.3 million, NOK 152.9 million is equity. This yields an equity ratio of 63%. After the balance sheet date the company strengthened the equity by NOK 350 million through a public offering in February 2010. In addition, in February 2010 North Energy strengthened its capital base via the acquisition of the company 4sea energy AS.

Of the asset side of the balance sheet, the tax receivable from the refund scheme has been valued at NOK 149.0 million. This is an increase from NOK 101.0 million in 2008. In addition the company's cash and cash equivalents have increased from NOK 13.3 million in 2008 to NOK 45.7 million in 2009. As of 31 December 2009, NOK 45.0 million had been drawn down on the company's exploration loan with Svenska Enskilda Banken, as against NOK 9.3 million at the end of 2008. All interest-bearing debt was repaid in February 2010.

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

Risk assessments

Paramount on objectives and strategy
The company is exposed to financial risk in various areas, but to a limited degree as there is little borrowing and contracts in foreign currency. Increased exposure in these areas is, however, being planned in the years to come. The objective is to reduce financial risk as far as possible. The company's present strategy does not include the use of financial instruments, but this is subject to ongoing consideration by the Board.

Currency and market risk
North Energy is not participating in producing fields and is thus not exposed to the big fluctuations in the oil price. The company has not entered into futures contracts or other agreements in order to reduce the company's currency risk and thereby the operational market risk.

Interest-rate risk
The company is exposed to changes in the interest rate, as the company's debt carries floating interest rate. Moreover, 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 claims are mostly on the Norwegian Government in connection with the fiscal value of exploration costs.

Operational risk
The company's operational risk is closely associated with key personnel and expertise. Moreover, as an exploration company North Energy is dependent on the political will to exploit the resources in interesting areas.

Health, Safety and Environment

In 2009 sickness absence in the company accounted for 1.8% of total working hours, which is regarded as satisfactory. The company will continue to safeguard the health of the staff, inter alia via training facilities and offers of physiotherapy. No work accidents have been reported during the year.

The company has established a working environment committee and its meeting schedule. Collaboration with union officials has been constructive and contributed positively to operations.

The Board perceives the working environment as highly satisfactory. A climate survey among the staff will be carried out in 2010 and will be used as a basis for measures to further improve the working environment.

North Energy's activity in 2009 pollutes the external environment only to a limited extent. The biggest factor is air travel, and in this connection the company has prepared a climatic impact report so as to follow the trend. The company makes extensive use of modern video / speech conferencing between the offices so as to limit travel. The business does not use ecologically injurious chemicals and generates no dust or noise.

The business has moved to new building, the Kunnskapsparken in Alta, which is equipped with a modern energy-saving and clock-controlled ventilation plant. The heating plant has clock-controlled nocturnal temperatures and lighting. All waste is sorted.

The company is participating in exploration drilling on PL 433, on which Centrica is operator. It is planned to conclude this operation towards the end of April 2010. Up to now, no injuries to personnel or pollution of the external environment has been reported. Centrica has facilitated the involvement of the partnership in connection with preparations and implementation of well 6506/9-2-S on PL 433 and North Energy has in this connection discharged its "supervisory obligation" in satisfaction of regulatory requirements.

Equality of opportunity

North Energy aims to be a workplace in which women and men have equal opportunities. Company policy is zero tolerance of discrimination between the sexes.

Of the company's 39 employees, 13 are women; the Board consists of three women and five men. The same gender ratio is also to be found in the company's management.

The company will continue to focus on equal gender opportunities and wishes to maintain a high percentage of women in senior positions.

Active ownership and corporate governance

Active ownership and corporate governance are the Board's most important tools for ensuring that the company's resources are managed in an optimal fashion and contribute to long-term wealth creation for the shareholders. In 2009 North Energy has undergone a comprehensive process to ensure that the company is in fill compliance with the NUES recommendation of 21 October 2009. In 2009 the Board held 19 meetings. There was special focus on the flotation and capitalisation of the company, inter alia involving a conversion of the corporate form from limited company to public limited company. In addition, the Board has concentrated on the strategic positioning of the company plus acquisition of licences and the company 4sea energy AS. In consequence of the capitalisation of the company, the shareholder agrement made at the start-up of North Energy in October 2007 has now lapsed.

In the course of 2009 the composition of the Board of North Energy changed, in that Arnulf Østensen and Guri H. Ingebrigtsen joined the Board, while Anna M. Aursund left it.

Profit/loss for the year and allocations

The company has no distributable equity at the end of the year. The Board proposes that the loss for the year, c. NOK 64,417,000, be transferred to uncovered losses.

Alta, 8 April 2010

Johan Petter Barlindhaug Chairman	Harriet Hagan Board member	Leif W. Finsveen Board member	Eirik F. Hansen Board member

Guri H. Ingebrigtsen Board member	Arnulf Østensen Board member	Kristin Ingebrigtsen Board member	Hans Kristian Rød Board member	Erik Karlstrøm CEO

Income Statement

(NOK 1 000)	Note	2009	2008
Payroll and related cost	5	-62 370	-41 969
Depreciation and amortisation	17	-3 414	-2 013
Exploration expenses		-113 098	-62 789
Other operating expenses	6	-28 752	-34 031
Operating profit		-207 633	-140 802
Finance income	19	4 300	1 925
Finance costs	19	-5 113	-1 405
Net financial items		-813	520
Profit before income tax		-208 446	-140 282
Income tax credit	16	144 029	101 005
Profit for the year		-64 417	-39 277
Earnings per share (NOK per share)			
- Basic	14	-8,07	-11,91
- Diluted	14	-8,07	-11,91

Statement of Compre-hensive Income

(NOK 1 000)	Note	2009	2008
Profit for the year		-64 417	-39 277
Other comprehensive income, net of tax:			
Actuarial gains/-losses pension	22	166	-2 701
Total other comprehensive income, net of tax		166	-2 701
Total comprehensive income for the year		-64 250	-41 978

Balance sheet

(NOK 1 000)	Note	31-12-09	31-12-08
ASSETS			
Non-current assets			
Property, plant and equipment	17	13 387	15 597
Intangible assets	18	9 382	0
Other receivables	7	9 782	4 507
Sum anleggsmidler		32 551	20 104
Current assets			
Prepayments and other receivables	8	15 118	7 717
Tax receivable refund tax value exploration expenses	16	148 960	101 005
Cash and cash equivalents	9	45 671	13 331
Cash and cash equivalents		209 748	122 053
Total assets		242 299	142 157

(NOK 1 000)	Note	31-12-09	31-12-08
EQUITY AND LIABILITIES			
Equity			
Share capital	10	9 201	5 811
Share premium		233 573	147 639
Other paid-in capital		26 999	8 080
Retained earnings		-116 837	-52 588
Total equity		152 935	108 943
Liabilities			
Non-current liabilities			
Pension liabilities	22	6 110	1 818
Total non-current liabilities		6 110	1 818
Current liabilities			
Current borrowings	12	45 000	9 289
Trade creditors		16 949	5 712
Other current liabilities	13	21 305	16 395
Total current liabilities		83 254	31 396
Total liabilities		89 364	33 214
Total equity and liabilities		242 299	142 157

Alta, 8 April 2010

Johan Petter Barlindhaug
Chairman

Harriet Hagan
Board member

Leif W. Finsveen
Board member

Eirik F. Hansen
Board member

Guri H. Ingebrigtsen
Board member

Arnulf Østensen
Board member

Kristin Ingebrigtsen
Board member

Hans Kristian Rød
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 2008		1 500	119	45 000	-10 609	36 010
Capital reduction		-1 350	0	1 350	0	0
Registration paid-in capital		1 800	43 200	-45 000	0	0
Share issues		3 861	104 320	0	0	108 181
Share-based payment, warrants	11	0	0	6 730	0	6 730
Total compehensive income for 2008		0	0	0	-41 978	-41 978
Equity at 31st of December 2008		**5 811**	**147 639**	**8 080**	**-52 588**	**108 943**
Equity at 1st of January 2009		5 811	147 639	8 080	-52 588	108 943
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
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**

Cash Flow Statement

(NOK 1 000)	Note	2009	2008
Cash flow from operating activities			
Profit before income ta		-208 446	-140 282
Adjustments:			
Tax refunded	16	98 221	13 701
Deprecitiation	17	3 414	2 013
Pensions		1 262	-1 029
Expensed share-based payment recognised in equity		15 975	6 730
Changes in trade creditors		11 237	4 241
Changes in other accruals		-2 491	8 339
Net cash flow from operating activities		-80 827	-106 287
Cash flow from investing activities			
Purchase of property, plant and equipment	17	-1 204	-13 712
Purchase of intangible assets	16,18	-11 529	0
Changes in other non-current receivables	7	-2 079	-2 832
Net cash flow from investing activities		-14 811	-16 544
Cash flow from financing activities			
Borrowings/repayments of current borrowings	12	35 711	9 289
Proceeds from share issues		92 267	108 181
Net cash flow from financing activities		127 978	117 470
Net change in cash and cash equivalents		32 340	-5 361
Cash and cash equivivalents at 1st of January	9	13 331	18 692
Cash and cash equivivalents at 31st of December	9	45 671	13 331

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 8 April 2010.

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 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 policy and disclosures

(a) New and amended standards adopted
The company has adopted the following new and amended IFRSs, without any material impact on the financial statements. This applies to:

- IFRS 7 Financial Instruments disclosures.
- IAS 1 Presentation of Financial Statements.
- IFRS 2 Share-based Payment.

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the company
The following standards and amendments to existing standards have been published and are mandatory for the company's accounting periods beginning on or after 1 January 2010 or later periods, but the company has not early adopted them:

- IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions.
- IFRS 3 Business Combinations.
- IAS 27 Consolidated and Separate Financial Statements.
- IFRS 9 Financial instruments.
- IAS 24 Related parties – definitions.
- IAS 32 Financial instruments – Puttable financial instruments and obligations arising on liquidation.
- IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items.
- IAS 38 Intangible Assets.
- IFRS 5 Measurement of non-current assets (or disposal group) classified as held-for-sale.
- IAS 1 Presentation of Financial Statements.
- IFRIC 12 Service concession arrangements.
- IFRIC 14 Amendment – Prepayments of a Minimum Funding Requirement.
- IFRIC 15 Agreements for the construction of real estate.
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation.
- IFRIC 17 Distribution of Non-cash Assets to Owners.
- IFRIC 18 Transfers of Assets from Customers.
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments.
- Improvements to IFRSs: 15 amendments in 12 standards.

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

2.3 Foreign currency

Functional currency and presentation currency
The financial statements are presented in Norwegian kroner (NOK), which is the functional currency of the company.

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

2.4 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any impairment charges. 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 reviewed 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 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. Property, plant and equipment that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.5 Intangible assets

Exploration costs for oil and gas properties
The company uses the successful efforts method to account for exploration costs. All exploration costs, with the exception of acquisition costs of licenses and drilling costs of exploration wells, are expensed as incurred. 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.

2.6 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.

2.7 Interests in Joint Ventures
The company'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.

2.8 Leases (as lessee)
Financial leases
Leases where the company assumes most of the risk and rewards of ownership, are classified as financial leases. The company does not have any such leases.

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

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

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

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

2.12 Taxes
Income taxes for the period 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.

2.13 Pension plans

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

The recognised liability is the present value of the defined benefits on the balance sheet 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.

2.14 Share-based payment

The company has share-based payment consisting of warrants granted to CEO and other employees of the management, and bonus shares as part of the company's general bonus programme for employees.

All programs at 31 December 2009 are equity-settled.

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

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

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

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

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

2.16 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.

2.17 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.

2.18 Segment reporting
The company's only business segment is exploration for oil and gas on the Norwegian continental shelf

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

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

2.21 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.

3. Financial risk management

3.1 Financial risks

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

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

(a) Credit risk

The company is mainly exposed to credit risk related to bank deposits and loans to employees. The exposure to credit risk is monitored on an ongoing basis. Investments are only allowed in bank deposits. As all counterparties have high credit rating, there are no expectations that any of the counterparties will not be able to fulfil their liabilities. There were no material concentration of credit risk on the balance sheet date. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. The company holds no receivables or loans in foreign currency.

(b) Interest rate risk

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

At 31 December 2009 the company has a revolving credit facility which entitles the company 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 company has no other interest-bearing borrowings.

At 31 December 2008 the company had a bank overdraft facility with limit MNOK 10 and interest rate NIBOR + 0,55%

Sensitivity analysis:

Interest rate sensitivity is calculated based on exposure to interest rate risk on the balance sheet date. If NIBOR would have been 50 basis points higher/lower, the company's profit after tax would have been TNOK 162 lower/higher. Corresponding figures for 2008, based on the same assumptions, was TNOK 33.

(c) Liquidity risk

Liquidity risk is the risk of being unable to pay financial liabilities as they fall due. The company's financial liabilities are short term and fall due within 0 - 6 months, except for current borrowings/funds drawn MNOK 45 which fall due within 6 – 12 months.

(d) Currency risk

The company has defined NOK as its functional currency. The company is exposed to currency risk related to its activities because the value of potential discoveries is correlated with USD and parts of the company's expenses are USD based. The company 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 company's aim for management of capital structure is to secure the business in order to yield profit to shareholders and contributions to other interest groups. In addition, a capital structure at its optimum will reduce the costs of capital. To maintain or change the capital structure in the future, the company can pay dividends to its shareholders, issue new shares or sell assets/licences to reduce debt. The company may buy its own shares. The point of time for this is dependent of changes in market prices.

The company monitors it's capital structur using a equity ratio, which is total equity divided by total assets. As at 31 December 2009 the equity ratio was 63,1% (76,6% as at 31 December 2008).

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 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 company 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 company considers the interest rate of registered bonds of high quality issued in the same currency as the pension payment, and with the approximately same due date as the related pension liability.

Other pension assumptions are partly based on market terms. Additional information is 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 company'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 company uses the successful efforts method to account for exploration costs. All exploration costs, with the exception of acquisition costs of licenses and drilling costs of exploration wells, are expensed as incurred.

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

Amounts in NOK 1 000	2009	2008
Salaries	36 561	23 375
Share-based payment, bonus shares	2 667	0
Share-based payment, warrants (note 11)	4 934	10 887
Payroll tax	2 325	1 360
Pension costs (note 22)	9 503	3 533
Other benefits	6 380	2 814
Total	62 370	41 969
Average number of employees	37	31

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)		3671	408	3078	791
Astrid M. Tugwell (Development Manager)		1280	183	192	332
Svein Johansen (Exploration Manager Norwegian Sea)		1593	250	583	256
Lars Tveter (HSE Manager)		1 241	163	410	325
Torleiv Agdestein (Chief Geologist)		1362	93	218	346
Knut Aaneland (Manager of Technology & Business dev.)		1295	133	358	255
Vigdis Wiik Jakobsen (Exploration Manager Barents Sea)		1471	131	289	883
Marion Høgmo (Administration Manager)		845	98	104	19
Knut Sæberg (CFO)		1583	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				
Totalt	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.

Remuneration to CEO:
The company's CEO has an agreement with an annual salary of NOK 2,45 million. Other benefits include free car, loan interest rate benefit, and regular allowances to cover telephone, internet, 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 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 warrants for CEO and other employees of the management.

Information about loan to employees, incl. interest benefit 2009:

Amounts in NOK 1 000	loan at 31.12.09	Maturity	Interest benefit	Interest rate
Erik Karlstrøm	1 735	10 år	31	2%
Torleiv Agdestein	1 892	20 år	32	2%
Artem Rabey	2 363	20 år	19	2 - 6% (*)
Totalt	5 989		82	

(*) Interest rate is 2% for loan NOK 2 million and 6% for loan NOK 0,45 million.

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 2008:

Amounts in NOK 1 000	Director's fee	Salaries (*)	Bonus	Pension	Other (**)
Management:					
Erik Karlstrøm (CEO)		1 965	267	106	123
Astrid M. Tugwell (Development Manager)		1 090	183	58	103
Svein Johansen (Exploration Manager Norwegian Sea)		1 540	250	104	16
Lars Tveter (HSE Manager)		902	163	35	50
Torleiv Agdestein (Chief Geologist)		600	92	45	105
Knut Aaneland (Manager of Technology & Business dev.)		808	133	60	4
Vigdis Wiik Jakobsen (Exploration Manager Barents Sea)		563	131	94	22
Board of Directors:					
Johan P. Barlindhaug (Chairman)	213				
Leif W. Finsveen (Board member)	74				
Harriet Hagan (Board member)	26				
Eirik F. Hansen (Board member)	100				
Kristin Ingebrigtsen (Board member)	26				
Hans Kristian Rød (Board member)	26				
Arnulf Østensen (Board member)	0				
Tore Andreassen (former Board member)	84				
Harald Karlstrøm (former Board member)	84				
Anna M. Aursund (former Board member)	21				
Total	653	7 469	1 219	503	423

Information about loan to employees, incl. interest benefit 2008:

Amounts in NOK 1 000	loan at 31.12.08	Maturity	Interest benefit	Interest rate
Erik Karlstrøm	1 920	10 year	57	2%
Torleiv Agdestein	1 992	20 year	7	2%
Total	3 912		64	

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,7 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 final salary paid.
(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 and travel insurance.

Note 6 Other operating expenses and remuneration to auditor

Other operating expenses include:

Amounts in NOK 1 000	2009	2008
Travelling expenses	5 084	4 862
Lease expenses (note 21)	4 382	4 122
Consultant's and other fees	4 451	14 013
Advertising costs	3 578	2 670
Other administrative expenses	11 257	8 364
Total	28 752	34 031

Remuneration to auditor is allocated as specified below:

Amounts in NOK 1 000	2009	2008
Audit	75	95
Tax assistance	49	22
Attestations	91	4
Legal assistance	71	0
Accounting assistance	778	0
Due diligence, prospectus	1 167	0
Total, excl. VAT	2 230	121

Note 7 Other non-current receivables

Other non-current receivables include:

Amounts in NOK 1 000	2009	2008
Loan to employees (note 5 og 15)	5 989	3 912
Deposit	421	420
Pension assets (note 22)	3 372	175
Total	9 782	4 507

Note 8 Prepayments and other receivables

Prepayments and other receivables include:

Amounts in NOK 1 000	2009	2008
Prepaid expenses	2 960	3 053
VAT receivable	4 138	4 664
Receivables, Joint Venture	8 013	0
Other items	7	0
Total	15 118	7 717

Note 9 Cash and cash equivalents

Amounts in NOK 1 000	2009	2008
Bank deposits	45 671	13 331
Total cash and cash equivalents	45 671	13 331
Of this:		
Restricted cash for witheld taxes from employees salaries	3 250	1 817
Restricted cash on escrow account	10 000	0

(*) Amount paid to an escrow account in connection with acquisition of interest in license PL433. The amount will be released after the first drilling, which is expected to be completed in 2010.

Note 10 Share capital and shareholder information

	2009	2008
Number of outstanding shares at 1 January	581 122	15 000
New shares issued during the year:		
Issued in exchange for cash	338 975	566 122
Total number of outstanding shares before share split 1:10	920 097	581 122
Share split 1:10 in December 2009	9 200 970	
Number of outstanding shares at 31 December	9 200 970	581 122
Nominal value NOK per share at 31 December	1	10
Share capital NOK at 31 December	9 200 970	5 811 220

North Energy has one class of shares with equal rights for all shares. No dividend has been paid for 2008 or 2009. Refer to note 11 for number of outstanding warrants.

Main shareholders as of 31 December 2009:

	Shareholders	No of shares	
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 A/L	600 230	6,52%
7	PERPETUUM INVEST AS	478 670	5,20%
8	NILSEN & SØNNER A/S	431 210	4,69%
9	HELGELAND VEKST A.S	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 A/L	81 000	0,88%
20	STRØM INVEST AS	80 000	0,87%
Sum		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 (HSE Manager)	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%

Number of shares owned by management and Board of directors at 31 December 2008:

Management		
Erik Karlstrøm (CEO)	6 797	1,17%
Torleiv Agdestein (Chief Geologist)	2 265	0,39%
Svein Johansen (Exploration Manager Norwegian Sea)	2 265	0,39%
Astrid M. Tugwell (Development Manager)	2 265	0,39%
Lars Tveter (HSE Manager)	2 265	0,39%
Knut Aaneland (Manager of Technology & Business development)	2 265	0,39%
Board of directors		
Johan P. Barlindhaug (Chairman), through JPB AS	60 108	10,34%
Total	78 230	13,46%

Note 11 Warrants

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

CEO has right to subscribe for shares such that he will 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 is NOK 25 for shares bringing his share-holding up to 1,5% and NOK 0,10 for shares bringing his shareholding from 1,5% to 2,5%. Expiry date for the warrants is 17 February 2010. The exercise is 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 have right to subscribe for shares such that they will 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 is NOK 25. Expiry date for the warrants is 17 February 2010. The exercise is 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 are equity-settled. The company has no legal or implicit obligations to buy back or settle the warrants in cash. Also CEO's warrants are equity-settled. In CEO's former contract, he could choose between settlement in cash or equity (subscribe for shares). This trade-off does not exist in the new contract.

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:

	2008 (*) Estimated number of warrants	2008 (*) Average subscription price NOK per share	2009(*) Estimated number of warrants	2009(*) Average subscription price NOK per share
Outstanding warrants at 1 January	812 690	17,37	621 190	15,48
Warrants granted	237 717	19,01	372 720	15,18
Warrants forfeited	0	0,00	0	0,00
Warrants exercised	-108 580	6,43	-181 220	1,00
Warrants expired	0	0,00	0	0,00
Outstanding warrants at 31 December	941 827	19,04	812 690	17,37
of these cash-settled	0		553 220	

(*) Number of warrants in 2009 and 2008 is after share split 1:10

Outstanding warrants for employees at 31 December 2009 are subject to the following conditions:

Subscription price NOK per share	Expiry date	Number of warrants
25	17-02-10	716 558
0,1	17-02-10	225 268
Total number of warrants		941 827

Weighted average fair value for warrants granted in 2009 is NOK 17,23 per warrant, and for warrants granted in 2008 NOK 10,08 per warrant (Amount for 2008 is adjusted for/ after share split 1:10)

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 for outstanding warrants is 0,60 years (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%).

In addition to outstanding warrants granted to CEO and six other employees of the management as share-based payment, there exist 1.400.520 outstanding warrants for shareholders per 31 December 2009.

Of the outstanding warrants per 31 December 2009 related to share-based payment for CEO and and six other employees of the management, 516.735 of these warrants 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.

Of the outstanding warrants for shareholders per 31 December 2009, all 1.400.520 warrants were exercised in February 2010. The subscription price was NOK 21,20 per share.

Note 12 Current borrowings

Current borrowings include:

Amounts in NOK 1 000	2009	2008
Bank overdraft (facility with limit MNOK 10)	0	9 289
Revolving credit facility ('Exploration loan' with limit MNOK 300)	45 000	0
Balance 31 december	45 000	9 289

The company's bank overdraft at December 31st 2008 is fully paid back in 2009. In 2009 the company has entered into a revolving credit facility agreement which entiltes the company a loan up to MNOK 300. 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 is NIBOR+1,1%. The loan is in NOK.

Note 13 Other current liabilities

Amounts in NOK 1 000	2009	2008
Public duties payable	3 760	2 343
Liability incurred - warrants (cash-settled)	0	8 374
Joint Venture	3 037	0
Vacation pay and bonus payable	9 105	2 554
Other accruals for incurred costs	5 403	3 124
Total	21 305	16 395

Note 14 Earnings per share

	2009	2008
Profit for the year (NOK 1 000)	-64 417	-39 277
Weighted average number of shares outstanding	7 978 807	3 298 976
Earnings per share (NOK per share)		
- Basic	-8,07	-11,91
- Diluted	-8,07	-11,91

Comparatives are adjusted due to share split 1:10 in December 2009.

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	2009	2008
Origo Nord AS (management company for shareholder Origo Kapital AS)	Management services	0	1 080
Origo Nord AS (management company for shareholder Origo Kapital AS)	HR and other administrative services	186	0
Origo Økonomipartner AS (100% owned by Origo Nord AS, who is management company for shareholder Origo Kapital AS)	Accounting services	450	0
Origo Nord AS (management company for shareholder Origo Kapital AS)	Informasjons, web og konsulent tjenester	150	0
Barlindhaug Consult AS (controlled by Chairman Johan Petter Barlindhaug)	Consulting services	25	0

Services are purchased at market terms.
The managing director of Origo Kapital AS and Origo Nord AS is Harald Karlstrøm, who is the brother of CEO Erik Karlstrøm.

(b) Remuneration to management and Board of directors

Refer to note 5 and note 11

(c) Loans to related parties

The company has provided loans to management as follows:

	loan at 31.12.09	loan at 31.12.08	Maturity	Interest rate
Erik Karlstrøm (CEO)	1 735	1 920	10 år	2%
Torleiv Agdestein (Chief Geologist)	1 892	1 992	20 år	2%
Total loans to management	3 626	3 912		

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.

Note 16 Tax

Spesification of income tax:

Amounts in NOK 1 000	2009	2008
Calculated refund tax value of exploration expenses this year	153 841	101 005
Of this refund not recognised in income statement (acquisition of licenses recognised net of tax)	2 147	0
Correction refund previous years	7 664	0
Total income tax credit	144 029	101 005

Specification of tax receivable refund tax value exploration expenses:

Amounts in NOK 1 000	2009	2008
Calculated refund tax value of exploration expenses this year	153 841	101 005
Correction refund previous years, not yet assessed	-4 881	0
Total tax receivable refund tax value exploration expenses	148 960	101 005

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, offshore:

Amounts in NOK 1 000	2009	2008
Property, plant and equipment	3 992	3 724
Intangible assets	8 776	0
Pensions	-2 738	-1 643
Other current liabilities	-100	-8 593
Tax losses carried forward, offshore only 28% basis	-6 480	-758
Tax losses carried forward, offshore only 50% basis	-854	0
Tax losses carried forward, offshore both 28% and 50% basis	-25 759	-15 200
Total basis for deferred tax	-23 163	-22 470
Deferred tax asset	14 592	17 148
Not capitalised deferred tax asset (valuation allowance)	-14 592	-17 148
Deferred tax asset in balance	0	0

Reconciliation of effective tax rate:

Amounts in NOK 1 000	2009	2008
Profit before income tax	-208 446	-140 282
Expected income tax credit 78%	162 588	109 420
Adjusted for tax effects (28% - 78%) of the following items:		
Permanent differences	-9 510	-983
Correction refund previous years	-7 664	0
Correction assessed tax losses previous years	-980	0
Finance items	-2 960	-495
Change in valuation allowance for deferred tax assets	2 556	-6 937
Total income tax credit	144 029	101 005

Note 17 Property, plant and equipment

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
2008	
Cost:	
At 1.1.2008	3 961
Additions	13 712
Disposals	0
Per 31.12.2008	17 673
Depreciation and impairment:	
At 1.1.2008	-63
Depreciation this year	-2 013
Impairment this year	0
Disposals	0
At 31.12.2008	-2 075
Carrying amount at 31.12.2008	15 597
Economic life	3-10 years
Depreciation method	linear

Note 18 Intangible assets

Amounts in NOK 1 000

	Capitalised exploration and license costs
2009	
Cost:	
At 1.1.2009	0
Additions (net of tax)	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 comprise acquisition of interest in license PL433 and capitalised exploration costs in accordance with the successful efforts method.

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

Note 19 Finance income and costs

Finance income:

Amounts in NOK 1 000	2009	2008
Interest income bank deposits	767	1 023
Other interest income	3 025	805
Foreign exchange gain	509	97
Total finance income	4 300	1 925

Finance costs:

Amounts in NOK 1 000	2009	2008
Interest expense	5 018	354
Foreign exchange loss	84	1 051
Other items	12	0
Total finance costs	5 113	1 405

Note 20 Financial instruments

(a) Categories of financial instruments

At 31 Desember 2009:

Amounts in NOK 1 000	Loans and receivables
Assets:	
Other non-current receivables1)	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 liabilities2)	12 142
Current borrowings	45 000
Total	74 091

At 31 Desember 2008:

Amounts in NOK 1 000	Loans and receivables
Assets:	
Other non-current receivables1)	4 332
Other current receivables	0
Cash and cash equivalents	13 331
Total	17 663

Amounts in NOK 1 000	"Financial liabilities measured at amortised cost"
Liabilities:	
Trade creditors	5 712
Other current liabilities2)	2 554
Current borrowings	9 289
Total	17 555

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 the alternative borrowing rate of 5,0% (2008: 5,0%). The discount rate correspond to 10-year fixed-rate loans with the addition of relevant credit rating.

Amounts in NOK 1 000	2009	2008
Other non-current receivables	5 023	3 298

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 counter-party credit rating.

Non-current receivables are mainly loans to employees. Cash and cash equivalents are receivables from two banks, and Standard & Poors credit rating for these banks is presented below:

Bank deposits:	45 671	13 331

Amounts in NOK 1 000	2009	2008
No external credit rating	0	0
A	38 906	0
AA	6 765	13 331
Total	45 671	13 331

(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	2009	2008
Lease office premises (inclusive joint costs)	2 982	3 439
Lease machinery and office furniture	384	33
Lease cars	1 016	650
Total lease costs (note 6)	4 382	4 122

Note 22 Pension

Actuarial assumptions:

	2009	2008
Discount rate	3,80%	3,80%
Expected rate of return on plan assets	5,80%	4,80%
Expected annual salary increases	4,00%	4,00%
Expected annual adjustment of pension benefits	3,75%	4,00%
Expected rate of G- regulation	3,75%	3,75%
Table used calculation of liability	K2005	K2005
Table used for calculation of disability	IR02	IR02

Average expected period of service until retirement age

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

-Female	47
-Male	44

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

-Female	28
-Male	24

Pension expense recognised in income statement:

Amounts in NOK 1 000	2009	2008
Current service cost	8 813	3 335
Interest cost	177	5
Expected return on plan assets	-56	-77
Social security cost	569	270
Total pension expense included in payroll and related cost	9 503	3 533

Specification of net pension liability:

Amounts in NOK 1 000	2009	2008
Present value of funded obligations per 31.12	13 699	5 963
Estimated fair value of plan assets per 31.12	10 961	4 320
Net pension liability	2 738	1 643

Classification of net pension liability in the balance sheet:

Amounts in NOK 1 000	2009	2008
Other non-current receivables (note 7)	3 372	175
Pension liabilities	6 110	1 818
Net pension liability	2 738	1 643

One individual pension plan is over funded with 3 372 at the end of 2009 (175 at the end of 2008). The over funding will be used to cover future liabilities, but not liabilities concerning other pension plans that the company has. The amount is therefore classified as other non-current receivable.

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

Amounts in NOK 1 000	2009	2008
Defined benefit obligations at 1 January	5 963	128
Current service cost	8 813	3 335
Interest cost	177	5
Actuarial losses / gains (-)	-1 254	2 495
Liability for defined benefit obligations at 31 December	13 699	5 963

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

Amounts in NOK 1 000	2009	2008
Fair value of plan assets at 1 January	4 320	0
Expected return on plan assets	56	77
Actuarial losses(-) / gains	-1 088	-206
Employer contributions	7 673	4 449
Fair value of plan assets at 31 December	10 961	4 320

Plan assets are comprised as follows	2009	2008
Shares	3,8 %	4,5 %
Short-term bonds	29,9 %	30,7 %
Money market	14,0 %	13,2 %
Long-term bonds	28,8 %	28,8 %
Property	16,8 %	16,8 %
Other	6,7 %	6,0 %
Total	100,0 %	100,0 %

	2009	**2008**
Actual return on plan assets	4,7 %	1,5 %

	2010	**2009**
Expected contributions to funded plans next year	6 773	6 630

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	2009	2008	2007
Present value of funded obligations per 31.12	13 699	5 963	128
Estimated fair value of plan assets per 31.12	10 961	4 320	0
Net pension liability	2 738	1 643	128
Experienced adjustments to the pension obligation	-1 254	2 495	0
Experienced adjustments to the plan assets	-1 272	-206	0

Note 23 Contingent liabilities

The company has not been involved in any legal or financial disputes in 2009 or 2008, where adversely outcome is considered more likely than remote.

Note 24 Shares in licenses and obligations

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 km2 3D seismic and one firm well.	Seismikk 2010 drilling 2011
PL 536	20%	Acquire a minimum of 600 km2 3D seismic.	2010

Note 25 Events after the balance sheet date

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% share in license PL 498 and 25% share 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 will be recorded, nor any goodwill will be recorded at the date of acquisition.

In February 2010 additional 1.400.520 new shares has been issued in connection with exercise of previous issued warrants. The subscription price was NOK 21,20 per share.

In February 2010 additional 516.735 new shares has been issued in connection with exercise of warrants. The shares were issued to Ninerik AS, a company controlled by CEO Erik Karlstrøm. Average subscription price was approx. NOK 12,70 per share.

As part of the Company's bonus scheme for employees, the Company issued in February 2010 a total of 57.820 shares to its employees at a subscription price of NOK 1 per share.

After the issue of shares in the public share issue in connection with the listing on Oslo Axess, the issue shares in connection with the acquisition of 4sea energy AS, the issue of shares in connection with exercise of warrants and the issue of bonus shares to employees, total outstanding shares in North Energy are 25.149.736 shares. The company's share capital is NOK 25.149.736, consisting of 25.149.736 shares at par value NOK 1 per share.

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

In February 2010 drilling commenced on the Fogelberg prospect in PL433 in the Norwegian Sea (North Energy share is 12%). Possible hydrocarbons has been discovered in the well.

Note 26 Oil and gas reserves, contingent resources and exploration drilling results (unaudited)

In 2007 the Oslo Stock Exchange issued guidelines with respect to the reporting of hydrocarbon reserves, contingent resources and results from exploration drilling.

North Energy has shares in licenses which all are in an early exploration phase where it is not possible to prove any reserves. Drilling of North Energy's first exploration well started in February 2010 (the Fogelberg prospect in PL433 in the Norwegian Sea, 12% share). Possible hydrocarbons has been discovered in the well.

Responsibility Statement

We confirm, to the best of our knowledge, that the financial statements for the period 1 January to 31 December 2009 have been prepared in accordance with current applicable accounting standards, and give a true and fair view of the assets, liabilities, financial position and profit and loss of the entity and the group taken as a whole. We also confirm that the Board of Directors' Report includes a true and fair review of the development and performance of the business and the position of the entity and the group, together with a description of the principal risks and uncertainties facing the entity and the group.

Alta, 8 April 2010

Johan Petter Barlindhaug Chairman	Harriet Hagan Board member	Leif W. Finsveen Board member	Eirik F. Hansen Board member

Guri H. Ingebrigtsen Board member	Arnulf Østensen Board member	Kristin Ingebrigtsen Board member	Hans Kristian Rød Board member	Erik Karlstrøm CEO

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To the Annual Shareholders' Meeting of North Energy ASA

Auditor's report for 2009

We have audited the annual financial statements of North Energy ASA as of 31 December 2009, showing a loss of NOK 64 417 thousand. We have also audited the information in the Board of Directors' report concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss. The financial statements comprise the balance sheet, the statements of income, comprehensive income, cash flows, changes in equity and the accompanying notes. International Financial Reporting Standards as adopted by the EU have been applied in the preparation of the financial statements. The financial statements are the responsibility of the Company's Board of Directors and Managing Director. Our responsibility is to express an opinion on the financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We conducted our audit in accordance with the laws, regulations and auditing standards and practices generally accepted in Norway, including standards on auditing adopted by The Norwegian Institute of Public Accountants. These auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and auditing standards an audit also comprises a review of the management of the Company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

- the financial statements have been prepared in accordance with the law and regulations and give a true and fair view of the financial position of the Company as of 31 December 2009 and the results of its operations and its cash flows and the changes in equity for the year then ended, in accordance with International Financial Reporting Standards as adopted by the EU
- the company's management has fulfilled its duty to produce a proper and clearly set out registration and documentation of accounting information in accordance with the law and good bookkeeping practice in Norway
- the information in the Board of Directors' report concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss are consistent with the financial statements and comply with the law and regulations

Tromsø, 8 April 2010
PricewaterhouseCoopers AS

Kent-Helge Holst
State Authorised Public Accountant (Norway)

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

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Bjørkmanns - Alta