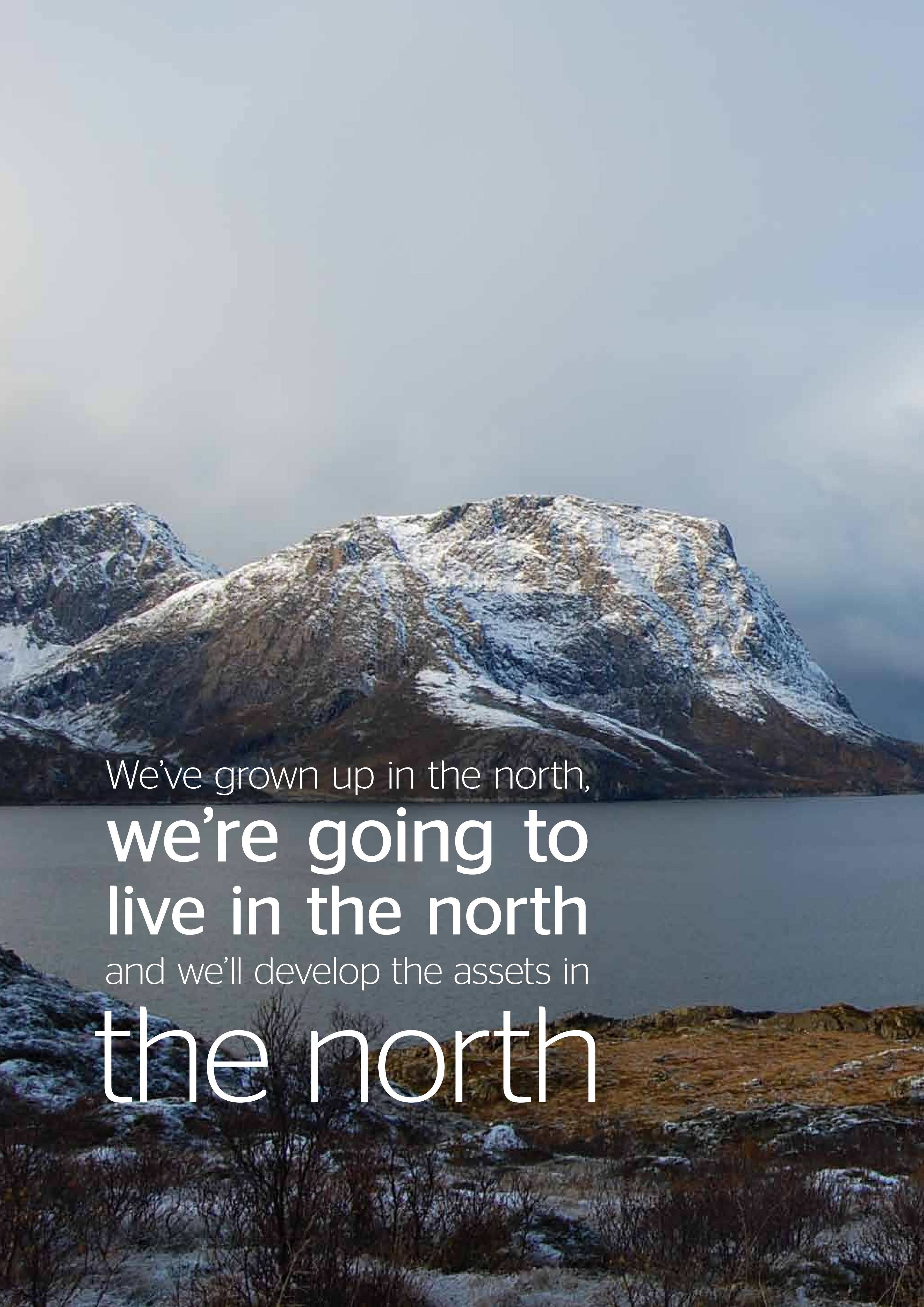
Annual Report 2011

north energy


We've grown up in the north,
we're going to
live in the north
and we'll develop the assets in
the north

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CEO's comments

Strongly placed where the resources lie – the Barents Sea

North Energy finally made its debut in the Barents Sea during 2011 as a participant in three wells. After two wells during 2010 in established plays further south on the NCS, including a commercial discovery (Fogelberg), the company's wells three, four and five were in the less well-known Barents Sea. The relatively unknown geology provided finding probabilities which indicated that a discovery was the most likely outcome. And that also proved to be the case. However, the surprising aspect was that the discovery was made in Norvarg, the well with the lowest probability for a commercial discovery.

Through Norvarg, the company found a larger volume of hydrocarbons than assessments of quantity and risk had indicated. North Energy's share price nevertheless suffered because the commercial development of this large gas discovery is currently unclear. That in turn means its value will remain unknown until a decision has been taken on a transport solution for gas from the Barents Sea. North Energy expects a decision on pipeline access to enhance the discovery's value significantly.

The year which began with five licence awards and a gas discovery eventually became more demanding through the drilling of two dry wells in which both the industry and the company had had great faith. Towards the end of 2011, however, the curves began to climb again for North Energy. Reservoir assessments and upgrading of gas resources in Norvarg, and signals from the NPD on the assessment of a gas pipeline to the far north, were harbingers of a breakthrough in the Barents Sea. In retrospect, North Energy's gas discovery in these waters could prove to have far greater value than anyone dared to suggest in 2011.

Established in the Barents Sea before the big players return

North Energy was awarded eight new exploration licences in the Barents Sea between 2008 and 2010, making it the biggest among the new companies in the far north. A few of the established players have a larger portfolio in these waters, but many of the licences concerned were awarded more than a decade ago. Activity in the old licences is limited, and many companies – such as Esso and Shell – left the Barents Sea at the time Snøhvit was established as an LNG development.

More than 40 prospects in licenced and opened areas of the Barents Sea are now identified by North Energy as potentially of commercial interest, assuming a new pipeline infrastructure in the far north. In February 2011, Gassco confirmed the NPD's recommendation from the year before and proposed a northern extension of the NCS pipeline system. This should permit production from 15-20 oil and gas fields during the next 20 years, which would in turn mean around 100 exploration and appraisal wells and twice as many producers. Many new companies are now being attracted to the Barents Sea by the discoveries of recent years and the prospect of gas export opportunities. This will have a big effect on the level of activity at North Energy. More work at every base in northern Norway will also contribute many jobs to this region, both on land and offshore.

Nominations in the Barents Sea for the next big licensing round, the 22nd, have been received from more companies than in any previous round, and companies such as Esso and Shell have returned. More and larger players will compete in this and subsequent rounds over the best Barents Sea licences. North Energy has taken the opportunity to establish itself before the wave of other companies washes over these waters. The company is now well prepared to compete for the best awards, and accordingly expects to make very interesting progress in coming years – not least in the Barents Sea.

Continued development of the business model

North Energy was founded almost five years ago, just ahead of the global financial crisis which has gradually deepened. During this period, the company has secured a portfolio of 24 licences and five wells have been drilled with two discoveries as the result. The latter rank in terms of size as fifth (Norvarg) and 16th (Fogelberg) among finds on the NCS over the past eight years. Some 250

Discoveries on the NCS by size over the past eight years

#	Discovery	Area	Million barrels of oil equivalent	Operator	Partners
1	Johan Sverdrup	North Sea	1 793	Lundin	Statoil, Petoro, Det Norske, Maersk
2	Skrugard	Barents Sea	260	Statoil	Petoro, Eni
3	Havis	Barents Sea	252	Statoil	Petoro, Eni
4	Grieg	North Sea	182	Lundin	RWE Dea, Revus
5	Norvarg	Barents Sea	176	Total	**North Energy**, Det Norske, Rocksource
6	Beta	North Sea	169	Suncor	Wintershall, Spring
7	Linnorm	Norwegian Sea	153	Shell	Statoil, Petoro, Total
8	Maria	Norwegian Sea	141	Wintershall	Centrica, Condeco, Faroe, Spring
9	Draupne	North Sea	140	Det norske	Statoil, Bayerngas
10	Peon	North Sea	123	Statoil	Petoro, Idemitsu
11	Asterix	Norwegian Sea	113	Statoil	Petoro, Shell
12	Afrodite	North Sea	101	Eni	Statoil, Idemitsu
13	Visund South	North Sea	98	Statoil	Petoro, ConocoPhillips, Total
14	Skuld	Norwegian Sea	92	Statoil	Petoro, Eni
15	Knarr1	North Sea	79	BG	RWE Dea, Idemitsu, Revus
16	Fogelberg	Norwegian Sea	72	Centrica	**North Energy**, Suncor, E.ON, Faroe
17	Zidane	Norwegian Sea	65	RWE Dea	Edison, Maersk, Noreco
18	Krafla2	North Sea	61	Statoil	Svenska, Det Norske
19	Grosbeak	North Sea	55	Wintershall	Premier, Noreco, Spring
20	Titan	North Sea	51	RWE Dea	Statoil, Idemitsu
			4 175		

exploration wells have been drilled in this period.

An important part of the company's business model is to sell out of discoveries in order to be able to reinvest in prospects where the potential value increase is expected to be higher. On 9 February 2012, North Energy entered into a contract to sell out of its first discovery, Fogelberg, for NOK 70 million. Historical costs have thereby been covered, and two-thirds of the amount represents a sale gain. The whole sum will be utilised to reinforce the future exploration commitment and thereby comply with the company's business model. Everyone at North Energy is looking forward to the next development stage, which will involve drilling its first well as operator, and thereafter following up discoveries with a continuing growth in value through appraisal and development.

Financed for growth

North Energy implemented a private placement of 15 million new shares at a price corresponding to NOK 10 per share during February 2012. This issue and the Fogelberg sale mean that the company is financed to maintain an aggressive exploration campaign during 2012 and 2013. The issue was directed at both new and large existing shareholders, and was oversubscribed at the subscription price. It was approved by an extraordinary general meeting on 2 March 2012. After North Energy also expanded its borrowing capacity under an existing exploration credit agreement from NOK 760 million to NOK 950 million, the company is equipped for further growth in a period when a number of small companies unable to attract capital in a persistently difficult financial market are expected to consolidate.

Looking ahead

A stronger commitment to the Barents Sea and a focus on costs have also affected the organisation of activities. The company has reduced all external costs in circumstances where new capital has become more expensive as a result of the volatile financial market. As a consequence, the presence in Stavanger and Bodø is being wound up.

After a demanding year, I find that personnel in North Energy are more motivated and hungry for success than ever before. At the end of each of the four previous years, we have looked forward to a fresh 12 months of increasing activity. The fifth year is no exception. The company could experience as many wells in 2012 as in all the four previous years put together. It is working purposefully towards that goal.

Erik Karlstrøm, CEO

Values, goals and strategies

Values

North Energy has four core values which will characterise its activities through its words and deeds:

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

Goals and strategies

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

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

North Energy's main strategies

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

The company's portfolio contains prospects with a high probability of discoveries which lie close to existing infrastructure. Emphasis is also given to further optimisation of the portfolio through licensing rounds and the purchase and sale of licence interests.

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

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

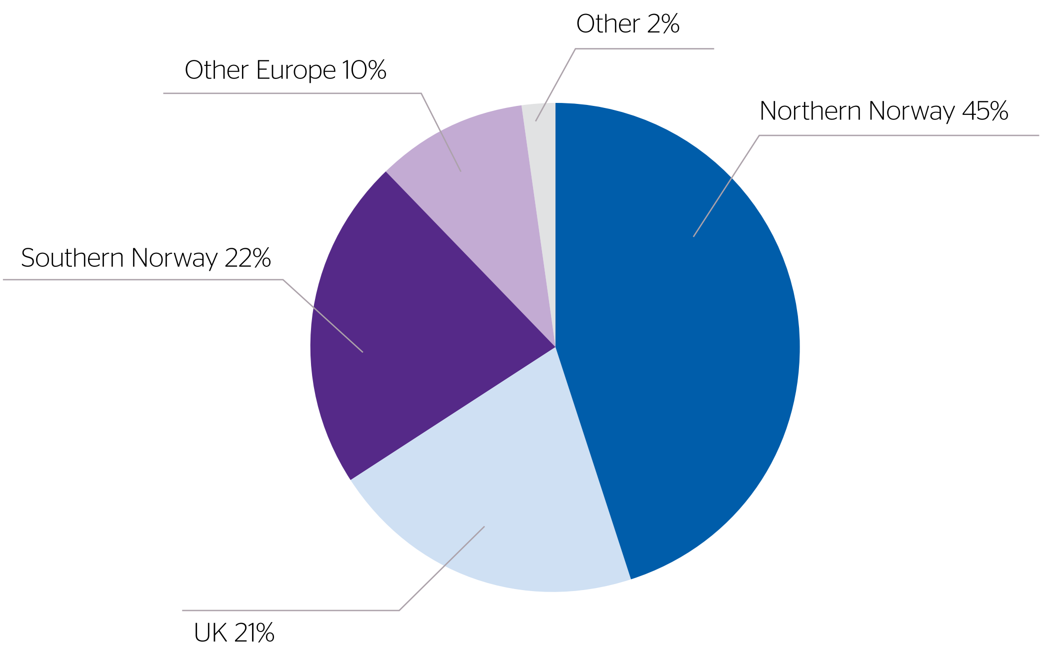
Being embedded in northern Norway makes North Energy a different kind of company. Knowing through this entrenchment how issues are perceived among coastal residents is a strength. The company accordingly wants to be a party to discussions on petroleum-based value creation in the far north.

A shared understanding of attitudes and views provides a good basis for constructive dialogue on specific activities, plans and challenges.

Key figures

		2011	2010	2009	2008	2007
Exploration costs	NOK 1000	(340 154)	(179 049)	(113 098)	(62 789)	0 000
Payroll costs	NOK 1000	(70 949)	(62 149)	(62 370)	(41 696)	(0 752)
Profit/(loss) for the year after tax	NOK 1000	(110 556)	(62 916)	(64 417)	(39 277)	(6 879)
Balance sheet total	NOK 1000	1 061 167	638 056	242 299	146 904	41 682
Working capital	NOK 1000	172 211	397 437	136 276	95 164	34 899
Equity ratio		35%	75%	63%	77%	96%
Cash flow before financing	NOK 1000	(349 819)	(246 137)	(95 638)	(129 444)	(28 139)
Number of shares		25 224 393	25 149 736	9 200 970	581 122	15 000
Nominal value per share	NOK	1	1	1	10	100
Share price	NOK	8.4	22.8			
Market capitalisation	NOK million	212.1	573.4			
Employees		51	43	38	31	1
Licences (operatorships)		23 (2)	21 (2)	8 (1)	0	0

Shareholder composition



Important events in 2011

Licence acquisitions/awards/sales

• North Energy secured five new licences, including an operatorship, in the 2010 APA round

• 10 per cent of PL 370 Kakelborg acquired from Wintershall, located 30 kilometres north-west of Snorre with drilling planned for the first quarter of 2012

• 20 per cent of PL 385 Jette acquired from Wintershall, bringing North Energy's stake to 35 per cent. Located in the Norwegian Sea with drilling planned in the first quarter of 2012

• Award of PL 601 Nupen in 21st licensing round during April

• North Energy acquired 15 per cent of PL 450 Storebjørn

Discovery/dry wells

• Gas found at three levels in PL 535 Norvarg, where Total E&P Norge AS is operator. After a formation test in Kobbe, the operator's volume estimate is 10-50 million scm of recoverable gas with a very low carbon dioxide content. A detailed evaluation is needed before more exact volumes and commerciality can be calculated, but the discovery confirms the company's very strong exploration expertise

• Dry well drilled in PL 530 on the southern part of the Heilo structure, but well data will provide valuable information for North Energy's other prospects in the area

Volume upgrades

• Increased volume estimates in PL 535 Norvarg bring the Barents Sea discovery closer to commercialisation. This find opens the way to coordinating several similar and smaller discoveries towards new infrastructure, providing lower thresholds for commercial production and, from that perspective, encouraging greater activity on the Bjarmeland Platform and the area near the boundary with Russia

• Upgraded resource estimate on Fogelberg lays the basis for profitable development

Events to date in 2012

• Award of two priority blocks in the 2011 APA round: PL 616 (North Sea) and PL 656 (off Nordland)

• Sale of the Fogelberg gas/condensate discovery in PL 433 to licence operator Centrica for NOK 70 million. This transaction is subject to the approval of the Norwegian government, which is expected in the second quarter of 2012

• The company raised NOK 150 million on 9 February through a private placement towards new and existing investors. This involved the issue of 15 million new shares with a nominal value of NOK 1 at a price corresponding to NOK 10 per share. The company thereby secured financial resources to strengthen its balance sheet and finance continued growth in accordance with applicable plans and strategies

• North Energy is planning to implement a repair issue of NOK 15 million to shareholders not included in the private placement

• The credit limit has been increased from NOK 760 million to NOK 950 million

Milestones

2012
- January: Secures two licences in 2011 APA round
- February: Sells stake in Fogelberg gas discovery
  Private placement raises NOK 150 million

2011
- January: Secures five licences in the 2010 APA round
- March: Secures two licences in the 21st round, including an operatorship
- March-July: Buys into two licences
- August: Successful formation test of gas discovery in PL 535 Norvarg
- 2nd half: Dry wells in PL 530 Heilo and PL 518 Zapffe

2010
- February: Raises NOK 400 million in financing
  Secures listing on Oslo Axess exchange
  Acquires 4Sea Energy, including two further licences
- April: Discovery in PL 433 Fogelberg
- October: Buys into PL 341 Stirby
- December: Non-commercial hydrocarbons found in Stirby

2009
- March: Prequalifies as an operator
- April: Secures four licences in the 20th round, including an operatorship
- 2nd half: Buys into two licences
- December: Secures three licences in the 2009 APA round

2008
- August: Prequalifies as a licensee
- December: Secures two licences in the 2008 APA round

2007
- September: North Energy is founded on the banks of the Alta River
- November: Erik Karlstrøm becomes chief executive officer
- 2007-2009: Financed by capital from northern Norway

Building knowledge in THE NORTH

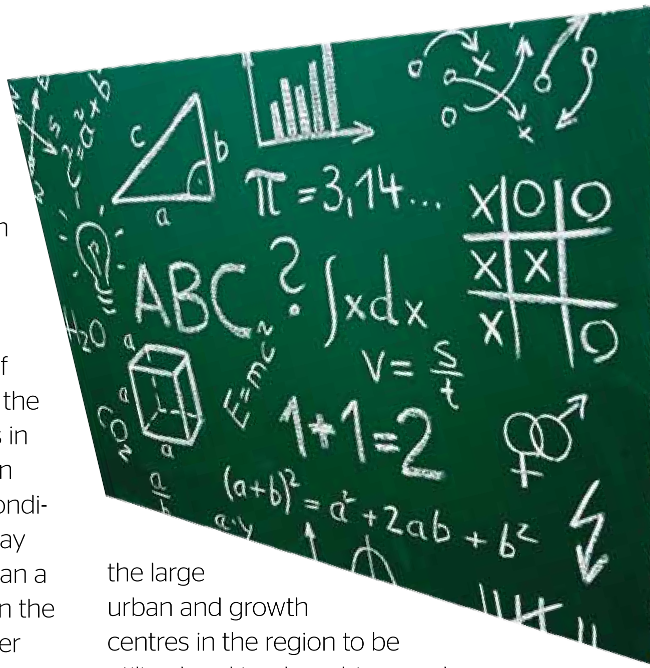
Northern Norway is on the verge of rapid progress in the energy sector which could provide the region with new and challenging expertise-based jobs.

Norway's petroleum industry is moving northwards, and this trend will be reinforced by several large new discoveries in the Barents Sea. Finding Skrugard, Norvarg and Havis during 2011 aroused expectations about northern Norway's role in developing a new oil region. Prospects for improved recovery of oil and gas resources in the far north have prompted parts of the Norwegian offshore and supplies industry to position themselves through a geographical presence, expertise building and strategic investments.

Expertise is central

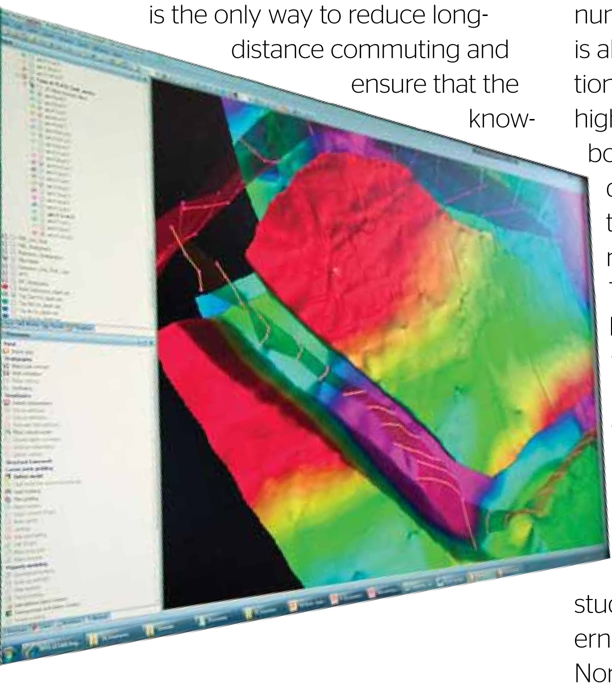
A precondition for the region's ability to realise the substantial potential offered by this development is access to competent personnel. Expertise is central to progress. The discussion on local spin-offs from expanded petroleum operations in northern Norway has concentrated largely on developments associated with the construction and operation of land-based processing plants – in other words, facility-based jobs largely located close to the wellstream. However, the majority of Norwegian jobs in the petroleum sector do not fall into this category but are found in innovation, high-tech development and design. These are located where the conditions for such activities are best. An understanding of that must be incorporated in the discussion on future spin-offs in the far north. A crucial issue in this context is whether the conditions exist for northern Norway to become anything more than a facilities area for companies in the south. The question is whether companies in the north should adopt a more innovative role in the new industry, which could yield additional knowledge-based jobs in the region.

Northern Norway already has a number of strong business clusters, industrial enterprises and educational institutions. In order to strengthen the region's position in far northern development, these must collaborate with counterparts in southern Norway and be attractive to foreigners seeking to set up shop. That calls for much of the north Norwegian business community to become involved in this activity, which in turn requires



the large urban and growth centres in the region to be utilised and to play a bigger role. Educational institutions in Tromsø, Narvik, Bodø, Alta and elsewhere must be drawn in even more strongly and position themselves as providers of relevant knowledge to meet current and future expertise requirements.

Important conditions for significant spin-offs from oil and gas operations in northern Norway are that the time frame is long term, that the level of activity is such that it becomes interesting for the companies to make a commitment, and not least that activities have a sufficiently lengthy perspective for young people to find it interesting to educate themselves in this direction. A recent survey conducted by Synovate for the Norwegian Oil Industry Association (OLF) showed that young people nationwide have great faith in the future of Norway's petroleum sector, and that 40 per cent could contemplate a career in this industry. The challenge in northern Norway is to fill existing and future jobs related to the oil industry with local expertise. That is the only way to reduce long-distance commuting and ensure that the know-how remains and develops in the region.



Science drive

The long-term perspective inherent in North Energy's vision shows up in its commitment to the region's educational institutions. A general enhancement in expertise and increased recruitment to science-based professions are among its goals. North Energy supports a number of university courses, and is also directly involved in educational projects from secondary to higher education level through both guest lectureships and direct development of science and technology courses. Its partners include the Universities of Tromsø and Nordland. North Energy also wants to benefit from academic knowledge available on the Russian side of the border. A partnership of this kind has been created through an agreement with the University of St Petersburg.

During the autumn of 2011, students from Norway's northernmost counties could apply for North Energy's energy scholarship. This grant is aimed at students who help through their education to strengthen the level of expertise with energy-related subjects in northern Norway. It is awarded to candidates from the north Norwegian counties.

North Energy has been collaborating since the autumn of 2009 with Alta College of Further Education in the national Adjunct Teacher and Energy School trials. The first of these aims to promote science studies in secondary and further education by involving specialists from industry directly as teachers in areas where the school sees an opportunity to heighten the educational benefit for pupils and their interest in the subject. A number of North Energy's employees have contributed to teaching in technology and research studies and the geosciences.

Collaboration between the business sector and educational institutions has proved fruitful. Applications for science courses at Alta College of Further Education have increased by 20 per cent since 2008.

The new oil region

The changes taking place in the far north offer opportunities for industrial and social development. Knowledge is the key to exploiting these openings. The legitimacy of petroleum activities in the far north depends not only on substantial spin-offs in the form of increased employment, but also on a broader industrial base and more expertise-based jobs. North Energy's goal is that many people from northern Norway will find a long and good working career in the oil industry during the time to come.

«Changes in the far north – a driving force for industrial and social development»

HSE and CSR

Conscious of its social responsibility

With its entrenchment in northern Norway, North Energy is conscious of the need to exploit its expertise on the far north in confronting the region's challenges. It accordingly pays particular attention to environmental considerations in the north, as expressed in its environmental strategy.

An important element in North Energy's HSE strategy is the involvement of the local community and local players. At the same time, the company has a focus on the far north, where a recognition exists that satisfactory and credible oil-spill preparedness is a precondition for activity – particularly in near-shore and vulnerable areas. On that basis, North Energy was active during 2011 in pursuing its compliance responsibility for near-shore drilling operations in its Barents Sea licences, and has exercised this duty by verifying the quality of the near-shore oil-spill response established by the operators.

Near-shore clean-up – challenges and knowledge gaps

Near-shore oil-spill preparedness is one of North Energy's priorities, and the company has accordingly taken the initiative to clarify possible improvements in this area. It drew up a report during 2011 which provides an overview of the basis for establishing a near-shore oil-spill response along the Norwegian coast. This study identifies a number of areas where the company believes knowledge gaps and a potential for improvement exist. Topics covered include the dimensioning of oil-spill response, geographical variations, and technical and operational conditions.

The basis for the report is that near-shore preparedness must

- be tailored to natural conditions in the area where operations are to be conducted
- have a documentable and verifiable performance under the relevant natural conditions
- be structured in such a way that it can meet the needs identified by environmental risk and preparedness analyses
- have personnel with the necessary expertise and be organised to provide an effective response.

Other relevant work has also been drawn on, including the analysis of official preparedness by the Norwegian Coastal Administration. Furthermore, experience from the *Deepwater Horizon* incident in the Gulf of Mexico during 2010 has been taken into account. The report also contains proposals for a second phase of the work, where specified issues can be followed up in separate projects.

Successful test of surface currents

During 2011, North Energy carried out tests at sea in collaboration with the Norwegian Institute of Marine Research to verify whether the Olex SB system and associated software, in combination with a simple current meter mounted on the fishing vessel, can also be used for accurate measurement and mapping of ocean currents. Olex SB is much used by the fishing fleet to map the seabed. Information from this test will play a key role in simulating oil spills and when assessing measures for cleaning up oil spills.

Complex surface currents complicate oil-spill prevention and clean-up. The Olex report describes the results of tests with the accuracy of a method which has the potential to provide more detailed knowledge of surface currents in an area and to collect updated information on current conditions during and after an oil spill. It concludes that the Olex method offers a reliable means of estimating surface currents with adequate accuracy.

Oil and gas operations in the far north make heavy demands on oil-spill preparedness along the Norwegian coast, and call for a close dialogue with representatives of coastal communities. The fishing fleet is a key representative. Collaboration between the oil and fishing industries could provide new and very valuable knowledge about local conditions.

«Near-shore oil-spill preparedness is one of North Energy's priorities.»

Committed and proud partner of the FINNMARK RACE

The Finnmark Race (Finnmarksløpet) is the northernmost dog sled contest and the longest in Europe. Unquestionably ranked as the main popular winter festival in Finnmark county, it will be staged in 2012 for the 32nd time.

First held in 1981, the race is run over two distances – one of 500 kilometres with up to eight dogs per sled, and the other over 1 000 kilometres with a maximum of 14 dogs. Competitors in the latter drive right across Finnmark from Alta in the west to Kirkenes in the east before turning and covering roughly the same route back to Alta. The short distance is run primarily on the Finnmark Plateau. Interest is high, and locals line up along the whole route to cheer on the competitors. Finnmarksløpet AS organises a large number of volunteers who make it possible to stage the race. Some 400 people devote much time to working without pay before, during and after it. Interest in the race is also high among North Energy's employees, and a number of them work as volunteers while it is being run.

The company has been a principal partner for the Finnmark Race for three years. The values of this event coincide with North Energy's own.

As a result, collaborating with the Finnmark Race represents a way for the company to give something back to the region. It wants to be a partner with others in northern Norway who work well, have a national perspective, and who build stone by stone towards success. Through this partnership, North Energy will also contribute to Finnmark and northern Norway becoming a player of substance and help create a desire to settle in the region.

COASTAL ENERGY

conference in Svolvær

Lofoten was centre-stage in the public discussion during 2011 on the utilisation of resources along the Norwegian coast, related to a possible opening of the waters off these islands and adjacent Vesterålen to petroleum activities.

In this context, the Coastal Energy conference in Svolvær has contributed to creating a positive and constructive arena for discussion. It also helps to highlight the interactions in the coastal region's national value creation, encourage innovation, and enhance knowledge of industries and culture along the coast.

North Energy was a partner of and contributor to Coastal Energy in 2010 and 2011. It believes that modern and traditional industries can develop side by side and coexist in mutual respect. The company's collaboration with Coastal Energy is valuable for it in terms of knowledge transfer between the various industries represented – fishing, tourism, oil and culture.

Knowledge about and mutual understanding of coastal society are essential in the discussion of this community's role in future oil operations. The coastal region has had and will retain an important role as an engine in Norway's national development.

THE BARENTS SEA

REGIONAL DEVELOPMENT AND PROSPECTIVITY

Exploration activity in the far north began during the early 1970s, and a total of 90 exploration wells have been drilled so far in the Norwegian sector.

Exploration history and activity

Exploration activity in the far north began during the early 1970s, but the region was first opened to the industry in 1980. A total of about 150 exploration wells have been drilled so far in the Norwegian and Russian sectors of the Barents Sea and in the Pechora Sea. Of these, 90 are in the Norwegian sector. Drilled to a measured depth of 3 373 metres on the Tromsø Patch in June 1980, the first well – 7120-12-1 – found traces of hydrocarbons. The initial discoveries, in the Alke structure and on Askeladden during 1981, kicked off the first active exploration phase in the Hammerfest Basin with the Snøhvit, Albatross and Askeladden oil and gas finds. Petroleum activities in the Russian sector began at about the same time. The first discoveries – Murmanskoye and Severo-Kildinskoye – were made in 1983. During 1988-89, the giant Rusanovskoye and Shtokmanovskoye discoveries were drilled in the Kara and Barents Seas respectively. The substantial Prirazlomnoye oil find was made in the Pechora Sea in 1989. Resources in Shtokmanovskoye are estimated to be about 13 times larger than in Snøhvit.

Enthusiasm reduced

After this initial phase, a number of dry wells were drilled. Enthusiasm for the area waned, and the Barents Sea has long been regarded as a gas region with a high level of exploration risk. A number of government measures, such as the Barents Sea Project in 1995-97, were implemented to maintain activity in these waters. Strategic wells in new areas showed that the Barents Sea is a unique area which has generated oil and gas from a number of petroleum systems. The Goliat discovery in 2000 and the Skrugard and Havis finds in 2011-12 confirm that the western Barents Sea has a large oil and gas potential. Finding gas at several levels as well as the production test in the Norvarg Dome on the Bjarmeland Platform in 2011 open new opportunities for much of the central Barents Sea.

Enthusiasm renewed

The new discoveries in the Barents Sea have generated record interest in connection with the nomination of new blocks for the 22nd licensing round.

When the treaty on the boundary between Norway and Russia came into force on 8 June 2011, a new exploration region similar in size to Norway's North Sea sector was opened. This covers 170 000 square kilometres in all, with Norway's share about 89 000 square kilometres. The NPD quickly launched new seismic data acquisition, and the industry expects that the area could be relevant from the 23rd licensing round in 2014. On the Russian side, the Rosneft oil company has already secured a licence for substantial exploration acreage.

Resource potential

In a Norwegian context, the Barents Sea offers a promising oil and gas

potential divided between several provinces. Apart from Goliat, the Skrugard and Havis discoveries have proven oil in the order of 500 million barrels of recoverable volume. A lot of gas has been proven in Snøhvit – 300 billion scm – and in the giant Shtokmanovskoye discovery – estimated to contain 3 900 billion scm. This clearly shows that large volumes of oil and gas have been generated. A number of discoveries have been made in the Pechora Sea, with Prirazlomnoye – at 600 million barrels of oil – as the largest. This field is currently under development.

The Barents Sea is a region where individual discoveries in the order of 500 million boe can still be made. Although few data are available from the previously disputed area, medium-large to giant structures have nevertheless been identified there. All the same, exploration in the Barents Sea can be complicated. A fundamental problem, and the cause of a number of dry wells, has been the diffusion of oil and gas out of structures. Understanding the geological processes and the correct use of geophysical data are the keys to future success. Most exploration areas outside the Hammerfest Basin are regarded as little explored. Substantial parts of the remaining prospectivity is expected to lie in reservoirs outside the classic Jurassic sequence familiar from the whole NCS.

Collaboration – players

A number of companies are joining forces to apply for new licences and to pursue drilling operations. This is cost-effective, and helps to enhance drilling-related safety. Following the boundary settlement, cross-border collaboration will be important for clarifying the resource picture, emergency preparedness, environmental measures and monitoring maritime traffic. Cooperation is also important at government level to clarify regulations and allocate responsibilities.

Academia

Relations between the industry and academic institutions have long been good. Paying greater attention to industry-related university assignments, and contributions from the industry to these institutions, have strengthened petroleum technology expertise among students. North Energy has particularly close ties with the University of Tromsø, and has also initiated a collaboration with the University of St Petersburg in order to achieve better understanding of petroleum geology on both sides of the political boundary in the Barents Sea. Enthusiasm is high, and great expectations attach to this cross-border collaboration, which will help to enhance the quality of students and improve their regional perspective.

Executive management

Erik Karlstrøm | CEO

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

Knut Sæberg | CFO

Sæberg was appointed CFO in March 2009 and is responsible for the company's financial functions and ICT. He came from the post of CFO in the Optimera group, where his priorities were restructuring and the acquisition and sale of businesses. Sæberg was previously CFO of NMD ASA and played a key role in its restructuring following the deregulation of Norway's pharmaceutical market. He held various positions in Shell from 1984 to 1995, and was directly involved in the establishment of the business organisation for the Troll project. Sæberg took an MSc in business economics at Kristiansand in 1984. He is a Norwegian citizen and resident in Asker.

Vigdis W Jacobsen | manager for business development and portfolio

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

Erik Henriksen | exploration manager

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

Astrid M Tugwell | development manager

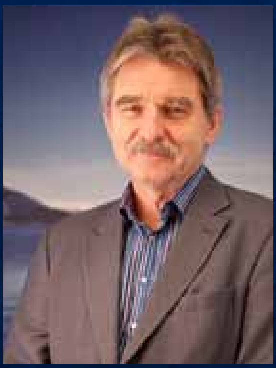
Tugwell joined the company as development manager in February 2008. She has a solid background in reservoir development and has also held positions in finance and planning, licence management and project management. She started her career with the NPD before joining Shell International and later Norske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

Marion Høgmo | manager of administration and HR

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

Kristin Ingebrigtsen | manager for strategy and PR

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



Lars Tveter | manager HSEQ

Tveter is manager for HSE and quality, and has been at North Energy since its inception. He was previously head of Aibel's operations in Libya. Tveter began his career as a process engineer at Kværner Engineering, and held various positions in R&D, petroleum technology, operations and HSE at Total in 1980-90. He was HR manager at Dolphin Drilling and HSE head for Hitec Dreco, and responsible for international business development at Aibel in 1994-2008. He has worked internationally on several occasions, in Argentina, France, Egypt and Libya. Tveter graduated as an engineer from the Norwegian Institute of Technology in Trondheim, and has an MA in international management from Norwegian School of Management in Oslo. He is a Norwegian citizen and resident in Stavanger.

All the portrait photos have been taken by Blink, a company run by students at Alta College of Further Education.

Exploration activity and portfolio

Exploration operations on the NCS in 2011 were marked by the gratifying discoveries made in the Barents and North Seas. North Energy has a 20 per cent interest in the substantial PL 535 Norvarg gas find in the Barents Sea. Other operations in these waters – the PL 530 Heilo and PL 518 Zapffe wells – failed to prove hydrocarbons, but the well data will provide valuable information for North Energy's other prospects in the area. Analysis work is under way on both licences to see whether they incorporate other drillable prospects.

The discovery in Norvarg well 7225/3-1 will be highly significant for continued exploration in the platform areas – including in the Russian sector. Preliminary estimates indicate a volume of roughly 41 billion scm of recoverable gas. An appraisal well is planned for the first half of 2013. The Norvarg discovery has contributed to a discussion about gas infrastructure on the NCS, where an extension of today's export pipeline system up to the Barents Sea has been established as a good alternative to gas liquefaction.

North Energy was an active applicant in regular and APA rounds. It received five new licences from the 2010 APA in January 2011. Two are in the Barents Sea, two in the Norwegian Sea and one in the North Sea. North Energy was awarded the operatorship of one of the Norwegian Sea licences. In the 21st licensing round, North Energy secured a holding in PL 601 Nupen in the Norwegian Sea. Two licences, in the Norwegian and North Seas respectively, were awarded to the company in January 2012 from the 2011 APA round.

Barents Sea

Since North Energy was founded, the Barents Sea has been one of its core areas – as demonstrated by the drilling of three wells during 2011. The company is continuing its commitment to these waters, and will be active with an eye to the opening of the boundary area adjacent to the Russian sector in the east.

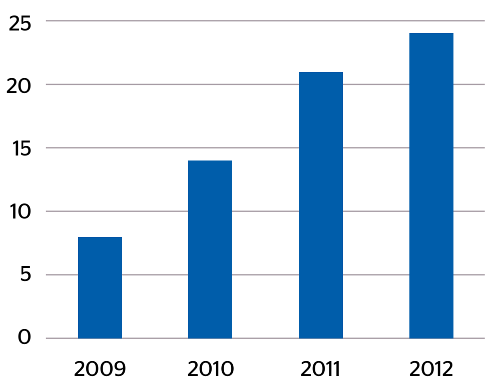
Compared with the North and Norwegian Seas, extra attention will have to be paid in the far north to periods of reduced light in the winter and other climatic conditions. Aspects such as wave heights and challenges posed by high pressure reservoir zones are generally more advantageous in the Barents Sea.

North Energy has a long-term perspective, and wants to make discoveries which can contribute to development and production with direct impacts on and spin-offs for northern Norway.

To help prepare for the 22nd licensing round and the 2012 APA round, North Energy took a new approach in 2011 by acquiring high-frequency seismic data in the Barents Sea in order to be better equipped for evaluation work. The seismic project is regarded as a success, and resulted in very high-quality data. A number of very interesting blocks and structures have already been identified.

The company also initiated a collaboration with academia, focused particularly on the Barents Sea. Together with the Universities of Tromsø and St Petersburg, PhD and MSc projects will be identified on geological and geophysical issues

Growth in the number of licences since start-up



Geographic distribution of licences

Summary of licences

Licence	Interest	Operator	Well
Barents Sea			
PL518	30%	Dong	2011
PL518B	30%	Dong	
PL530	20%	GdFSuez	2011
PL535	20%	Total	2011
PL536	20%	Statoil	DoD
PL564	20%	OMV	DoD
PL594	20%	Statoil	DoD
PL595	4 %	Edison	DoD
Norwegian Sea			
PL385	35%	Statoil	2012
PL433	12%	Centrica	
PL510	20%	Centrica	DoD
PL526	40%	North Energy	DoD
PL562	10%	EON Ruhrgas	DoD
PL587	40%	Edison	DoD
PL590	40%	North Energy	DoD
PL601	20%	Wintershall	DoD
PL656	10%	EON Ruhrgas	DoD
North Sea			
PL370	10%	Wintershall	2012
PL370B	10%	Wintershall	
PL450	15%	Det Norske	2012
PL498	25%	Lotos	2012
PL503	25%	Lotos	DoD
PL503B	25%	Lotos	DoD
PL616	20%	Edison	DoD

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

which are highly relevant for the industry. These partnerships will enhance knowledge of the geology on both sides of the boundary.

Norwegian Sea

North Energy has eight licences in the Norwegian Sea, including two as operator. The company made its first discovery here with Fogelberg, and drilling of the Jette prospect in PL 385 operated by Statoil is expected in mid-2012. PLs 601 and 656 lie at the northernmost edge of the area and were awarded to North Energy in the 21st licensing round and the 2011 APA round respectively.

In these areas, the company is primarily looking for Jurassic sandstone prospects in faulted traps formed after the sands were deposited. This play has been highly successful in the region, with discoveries made in more than half of such traps.

North Energy is working actively as operator of PL 590 Mikkeli for a drilling decision, while simultaneously building up expertise and organisation to drill. Plans call for a decision in 2012.

North Sea

Eight licences are held by North Energy in the North Sea, of which seven were acquired by purchase. The eighth, PL 616, was awarded in the 2011 APA round.

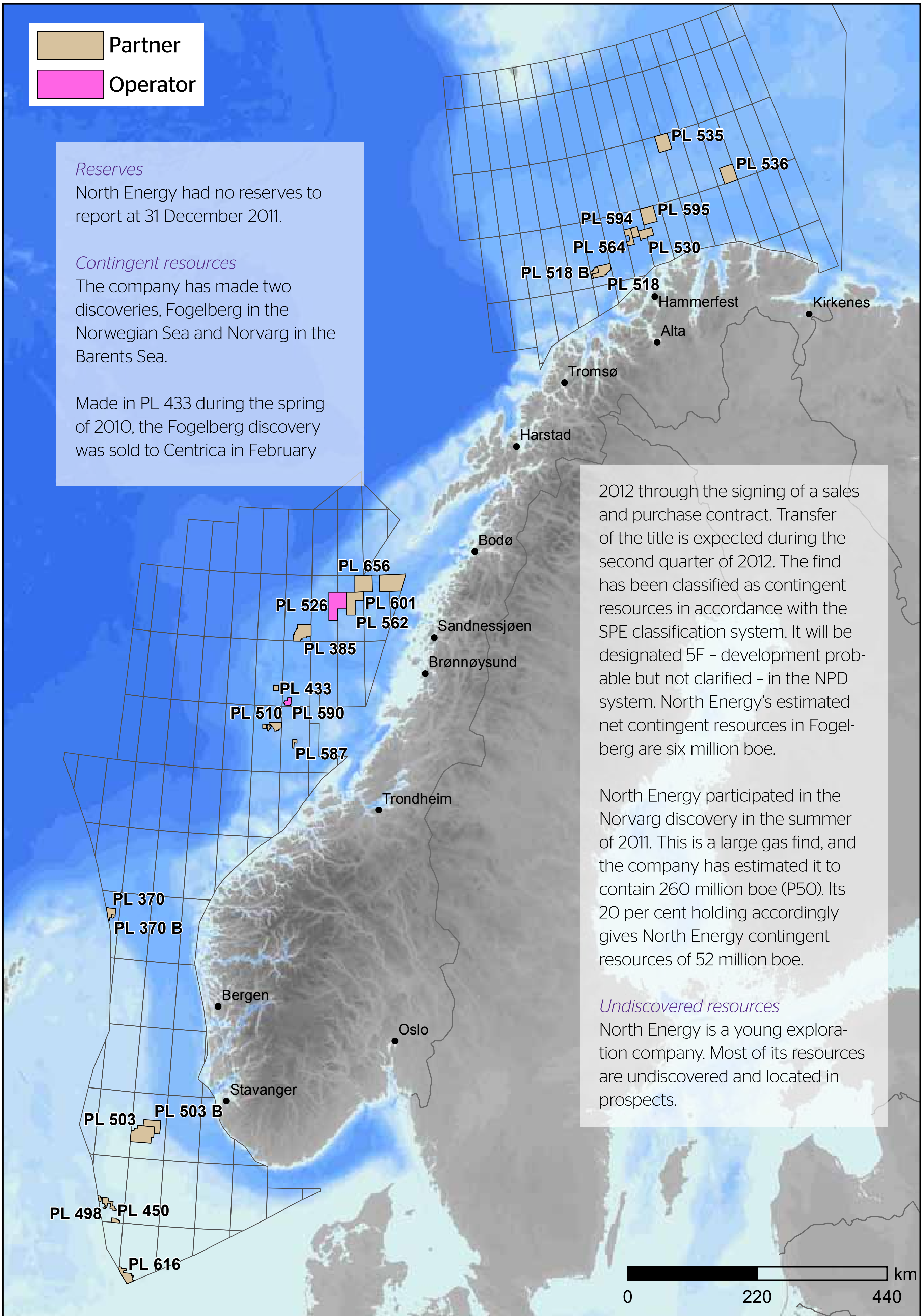
The company acquired 15 per cent of PL 450 Storebjørn from Det Norske in 2011. Drilling began on 29 January 2012.

A well is due to be drilled on the Skagen prospect in PL 498 later in 2012 to test a highly interesting chalk play which has been successful in similar structures.

The North Sea contains Valberget, the prospect with the biggest potential in North Energy's portfolio. Since it represents a new play, this prospect has a very high risk.

North Energy will continue to monitor the transaction market in the North Sea.

Resource status



Reserves

North Energy had no reserves to report at 31 December 2011.

Contingent resources

The company has made two discoveries, Fogelberg in the Norwegian Sea and Norvarg in the Barents Sea.

Made in PL 433 during the spring of 2010, the Fogelberg discovery was sold to Centrica in February 2012 through the signing of a sales and purchase contract. Transfer of the title is expected during the second quarter of 2012. The find has been classified as contingent resources in accordance with the SPE classification system. It will be designated 5F – development probable but not clarified – in the NPD system. North Energy's estimated net contingent resources in Fogelberg are six million boe.

North Energy participated in the Norvarg discovery in the summer of 2011. This is a large gas find, and the company has estimated it to contain 260 million boe (P50). Its 20 per cent holding accordingly gives North Energy contingent resources of 52 million boe.

Undiscovered resources

North Energy is a young exploration company. Most of its resources are undiscovered and located in prospects.

Board of directors

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

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

Leif Finsveen
(born 1951), director
Finsveen is one of North Energy's founders, and has made his career in the energy sector. He is currently group chief executive of Salten Kraftsamband (SKS), and previously held the same position at Lofotkraft and Bodø Energi. Finsveen has an MSc in engineering from the Norwegian Institute of Technology in Trondheim. He is a Norwegian citizen and resident in Bodø.

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

Board of directors. Ole Njærheim, Heidi M Petersen, Jørn Olsen, Harriet Hagan, Leif Finsveen, Hans Kristian Rød, Brynjar Forbergskog, Johan Petter Barlindhaug and Guri Helene Ingebrigtsen.

Brynjar Forbergskog
(born 1958), director
Forbergskog has been chief executive of Torghatten ASA since May 2005. Before that, he was CFO at the same company for 15 years. In December 2009, he became group chief executive of the merged Torghatten company. Forbergskog also holds a number of offices in the public and private sectors.

Ole Njærheim
(born 1970), director
Njærheim has more than 15 years of experience from the investment sector and the oil and gas industry. He began his career with Standard and Poor's in London, and has also worked for Lyse Energi, Petoro and Pareto PPN. Njærheim was vice president investment at IKM Invest, one of North Energy's owners, from 2007-11. He became head of the oil and gas department at Pöyry Management Consulting in January 2012. Njærheim took an MSc in business economics at the University of Agder in 1994 and an MSc at the University of Surrey in 1995, and became an authorised financial analyst (AFA) in 2003.

Hans Kristian Rød
(born 1953), director
Rød has long experience from the oil and gas industry. He began his career at Mobil Exploration in the late 1970s, and has since worked for NPC and been chief executive of Neste, later Fortum. He studied at the Norwegian School of Management and has an MBA from the University of Wisconsin. Rød is a Norwegian citizen and resident in Nesøya.

Guri Helene Ingebrigtsen
(born 1952), director
Ingebrigtsen is a doctor at the Nordland Hospital in Lofoten. She was council chair of Lofoten's largest local authority until 2007, and served as minister of health and social affairs in 2000-01. She is still active in local politics. Ingebrigtsen was a director of Det Norske Oljeselskap ASA from 2007-08, and chair of LoVe Petro, an organisation for the regional business community which works to open the Nordland VI and VII and Troms II areas. She is a Norwegian citizen and resident in Stamsund.

Jørn Olsen
(born 1950), director
Olsen is a senior adviser at North Energy and has more than 30 years of experience from the petroleum industry. He has an MSc in resource geology from the Norwegian Institute of Technology and has been with the company since 2008. He has previously worked for the Norwegian University of Science and Technology, the Confederation of Norwegian Enterprise, Norsk Hydro, Moss Rosenberg Verft, Saga Petroleum, Scandpower Risk Management and Svenska Petroleum. His experience embraces exploration, field development planning, the gas market and negotiations, project management and research management. Olsen has been elected to the board by the employees. He is a Norwegian citizen and resident in Moss.

Investor information

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

North Energy is listed on the Oslo Axess exchange under the ticker code NORTH. Its share price fell during the year from NOK 22.90 to NOK 8.41 per share. The market value of the company declined from NOK 573.4 million at 31 December 2010 to NOK 212.1 million at the end of 2011. Earnings per share in 2011 were negative at NOK 4.39.

The company had 25 224 393 shares at 31 December 2011. Outstanding shares in the company increased by 647 874 over the year as a result of the company's bonus programme. North Energy has only one share class, and each share has one vote at the general meeting and carries an equal right to dividend. The company has not paid a dividend to date and, because of the investment programme and its financing, does not expect to do so for some years to come. The company's goal is to give the shareholders a good return over time by creating value and thereby contributing to a positive development of the share.

Owners

North Energy had 1 161 shareholders at 31 December 2011, and the 20 largest shareholders held 62.1 per cent of all the shares. The largest shareholders were THS Partner LLP, Elliott International LP, SKS Eiendom AS, JPB AS and Origo Kapital. Directors, the executive management and other employees owned about nine per cent of the shares directly or indirectly.

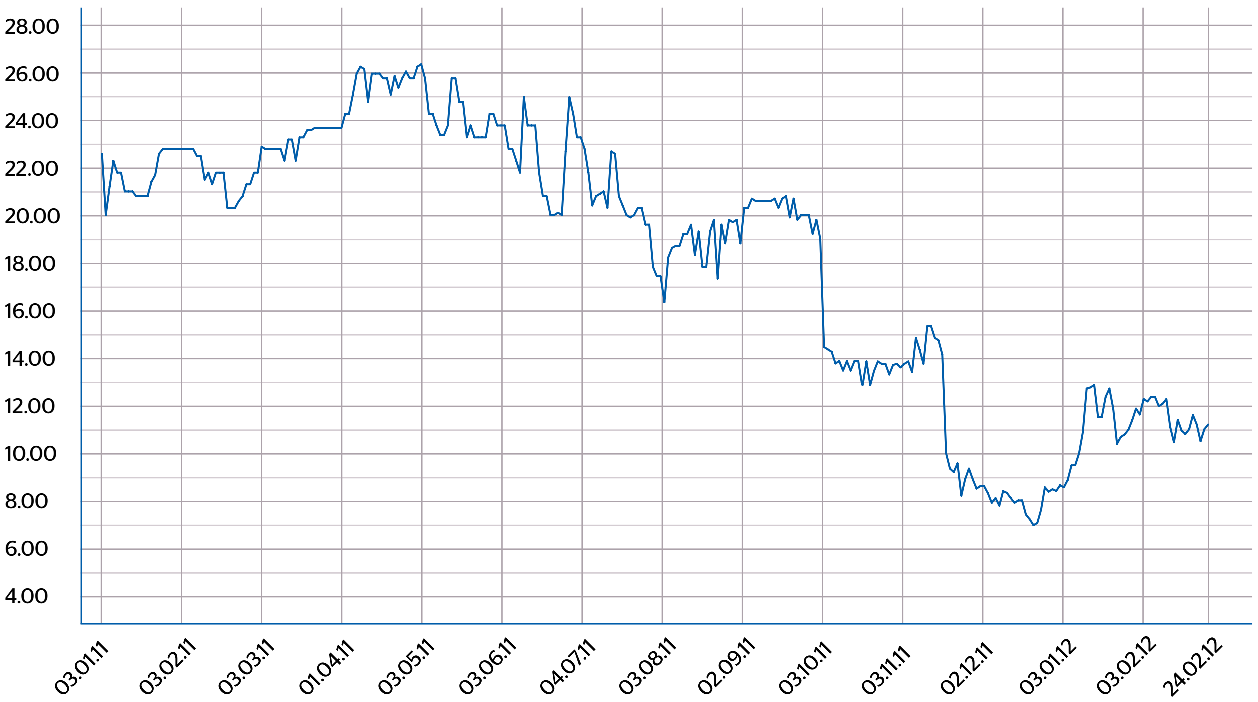
The geographical distribution was largely unchanged during the year, and holdings in the company break down by geography as follows.

1. Northern Norway 45 per cent
2. UK 21 per cent
3. Southern Norway 22 per cent
4. Rest of Europe 10 per cent
5. Other 2 per cent

North Energy's 20 largest shareholders

	Shareholder	Country	Number of shares	%
1	ELLIOTT MANAGEMENT	UK	2 361 900	9.4%
2	SKS EIENDOM AS	NORWAY	1 824 920	7.2%
3	JPB AS	NORWAY	1 370 000	5.4%
4	ORIGO KAPITAL AS	NORWAY	1 343 569	5.3%
5	OM HOLDING AS	NORWAY	933 808	3.7%
6	ONSHORE GROUP NORDLAND AS	NORWAY	933 340	3.7%
7	PRAXIENT	USA	774 216	3.1%
8	KAPNORD FOND AS	NORWAY	640 000	2.5%
9	THE NORTHERN TRUST CO	UK	566 420	2.2%
10	IKM INDUSTRI-INVEST AS	NORWAY	545 648	2.2%
11	NINERIK AS	NORWAY	516 735	2.0%
12	HSBC BANK PLC	UK	500 000	2.0%
13	BLACKWELL PARTNERS	USA	478 948	1.9%
14	CACEIS BANK	FRANCE	478 350	1.9%
15	THE NORTHERN TRUST CO	UK	438 717	1.7%
16	SVITHUN FINANS AS	NORWAY	431 958	1.7%
17	LEONHARD NILSEN & SØNNER AS	NORWAY	431 210	1.7%
18	ALTA KRAFTLAG A/L	NORWAY	400 230	1.6%
19	STATE STREET BANK & TRUST CO	USA	376 127	1.5%
20	HELGELAND VEKST A.S	NORWAY	315 000	1.2%
			15 661 096	**62.1%**

Share price developments



Events after 31 December

The company carried out a NOK 150 million private placement on 9 February 2012 towards existing shareholders and new investors. In that connection, it issued 15 million new shares, each with a par value of NOK 1 and a subscription price of NOK 10. This issue gave the company 54 new shareholders.

From 16-19 March 2012, the company carried out a repair issue for shareholders not included in the private placement. The par value was NOK 1 and the subscription price NOK 10. An updated overview of the 20 largest shareholders in the company can be found at www.northenergy.no/investor

Swedbank First Securities
Arctic Securities
Argo Securities
Carnegie
DnB Markets
Pareto
R S Platou
Enskilda
Nordea Markets

Directors' report 2011

The business

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

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

Important events

North Energy conducted exploration drilling during 2011 in the PL 535 Norvarg, PL 530 Heilo and PL 518 Zapffe production licences, which are all located in the Barents Sea. Gas was proven at three levels in PL 535 Norvarg. The preliminary estimate of volumes from operator Total E&P Norge AS is 10-50 billion scm, while North Energy's own estimate is at the upper end of this range. To increase knowledge of the discovery, the operator is expected to propose appraisal wells. The Norvarg discovery has contributed to a discussion about the gas infrastructure on the NCS, where an extension of today's export pipeline system to the Barents Sea ranks as one option. North Energy has a 20 per cent equity interest in PL 535 Norvarg.

Drilling in PL 530 Heilo during September/October identified a good reservoir but in a dry structure. Analyses of the licence are still under way to identify the migration direction of the oil if possible. PL 518 Zapffe was terminated in November, but the well failed to find rocks of adequate reservoir quality.

North Energy has been active in regular licensing rounds and the awards in predefined areas (APA). It secured five licences in the 2010 APA round, allocated in January 2012, of which two were in the Barents Sea, two in the Norwegian Sea and one in the North Sea. North Energy was given the operatorship of one of the Norwegian Sea licences. Furthermore, the company secured PL 601 Nupen in the Norwegian Sea from the 21st licensing round. One licence each in the North and Norwegian Seas was awarded to North Energy in the 2011 APA during January 2012. This gives a total of eight licences awarded by the government, which must be considered a good outcome from the applications made.

North Energy has also developed its business operations through the purchase of licence interests. The company announced in March that it was acquiring 10 per cent of PL 370 Kakelborg from Wintershall Norge. This licence is located north-west of Snorre in the North Sea, and is due to be drilled in the second quarter of 2012. Twenty per cent of PL 385 Jette was also acquired from the same seller. This means that North Energy now holds 35 per cent of the licence, which is located in the Norwegian Sea and due to be drilled in 2012.

Substantial work was devoted during the year to preparing the purchased licence interests for drilling in 2012.

North Energy announced on 9 February 2012 that it had entered into a contract with Centrica Resources (Norge) on the sale of North Energy's 12 per cent share in PL 433 Fogelberg for NOK 70 million. This transaction is subject to Norwegian government approval, which is expected during the second quarter. The Fogelberg discovery has been regarded as non-strategic in North Energy's portfolio, and the sale demonstrates that an important part of the company's business model is functioning as intended.

On the same day, North Energy carried out a private placement of 15 million new shares at a price corresponding to NOK 10 per share. This issue was directed at new subscribers as well as large existing shareholders, and was oversubscribed at the subscription price. It was followed up with a repair issue directed at the company's smaller shareholders, comprising 0.59 million shares at a price of NOK 10 each. These issues were approved by an extraordinary general meeting on 2 March 2012.

During the first quarter of 2012, North Energy has increased its borrowing capacity under the exploration credit agreement entered into by the company with DNB, SEB and BNP from NOK 760 million to NOK 950 million.

The sale of the Fogelberg discovery, the issue proceeds and the extension of the exploration credit mean that North Energy has a solid capital base. On that basis, the company will work to strengthen its exploration programme for the next two years.

When the new awards and the sale of Fogelberg are taken into account, North Energy has a portfolio of 23 licences. These are evenly distributed in numerical terms between the Barents, Norwegian and North Seas, but the Barents Sea clearly represents the most significant region for the company in terms of resources.

Going concern

Pursuant to section 3-3a of the Norwegian Accounting Act, confirmation is hereby given that the going concern assumption is realistic. That assumption rests on the company's financial position, profit forecasts for 2012 and long-term strategic predictions for the years to come.

Comments on the annual financial statements

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

The board is not aware of any significant considerations which affect the assessment of the group's position at 31 December 2011, or the net result for the year, other than those presented in the directors' report and the financial statements.

The group has no revenues. The pre-tax loss was NOK 471.8 million, compared with NOK 289.2 million in 2010. This development reflects the fact that the group's exploration activity increased from two wells to four, while the portfolio expanded from 14 licences at 31 December 2010 to 25 before the sale of Fogelberg. Licence and exploration costs account for the bulk of the loss. These rose from NOK 179.1 million in 2010 to NOK 340.2 million. Payroll costs increased from NOK 62.1 million to NOK 70.9 million over the same period, reflecting growth in the number of employees.

The net loss for 2011 came to NOK 110.6 million, compared with NOK 62.9 million the year before.

Equity accounts for NOK 348.3 million of a balance sheet totalling NOK 1 061.2 million. That gave an equity ratio of 35 per cent at 31 December. North Energy strengthened its equity even further in the first quarter of 2012 through the issue of 15 million new shares as well as the sale of the Fogelberg discovery.

Among the balance sheet's assets, the tax claim under the refund scheme is valued at NOK 553.6 million. That represents an increase from NOK 347.5 million in 2010. North Energy made a discovery in PL 433 Fogelberg during 2010, and one in PL 535 Norvarg during 2011. Drilling costs for these discoveries have been capitalised and account for the bulk of the NOK 376.7 million in carried exploration and licence costs. The company held NOK 34.2 million in cash and cash equivalents at 31 December.

North Energy has no non-current interest-bearing debt, while its current liabilities largely comprise NOK 348.3 million drawn down on the exploration credit.

Cash flow from operating activities was negative at NOK 30.8 million, compared with a negative NOK 30.7 million in 2010. Investment activities yielded a negative cash flow of NOK 349.9 million, up from a negative NOK 214 million in 2010. Net cash flow from financing activities was NOK 328.8 million, compared with NOK 285.1 million in 2010.

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

Future developments

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

Since its formation in 2007, North Energy's main goals have related to building up a strong organisation, being awarded or purchasing good licences, executing the exploration programme and eventually investing in development and production. One of the company's aims is to contribute to increased regional value creation as the oil industry now moves northwards. This can be achieved through operatorships in licences which are in an active phase for drilling, development and production.

North Energy's demanding goals can be achieved through success in the forthcoming exploration campaign. It is accordingly important that the company, through the sale of discoveries and new supplies of capital, has made provision for a substantial extension and strengthening of the exploration programme. In that context, efforts are being made to secure firm wells for 2013. North Energy is due to participate in four wells during 2012: PL 450 Storebjørn, PL 370 Kakelborg, PL 498 Skagen and PL 385 Jette. The first three of these are oil prospects in the North Sea, while the last is a Norwegian Sea gas prospect. All the licences are located close to infrastructure.

The company intends to participate actively in future licensing rounds. On the basis of positive exploration expertise and strengthened financing, its ambitions for good allocations are considerable. The board wants the work of strengthening and optimising the portfolio to continue, and North Energy will therefore continue to assess opportunities for acquisition and sale of licences.

Several significant oil and gas

discoveries were made in the Barents Sea during 2011, which have helped to increase interest in licences in these waters. The Norvarg discovery, in which North Energy has a 20 per cent holding, and a substantial number of promising licences in the Barents Sea mean that the company is well positioned to play an active role in developing oil and gas operations in the far north. It will accordingly continue to build expertise and position itself in this region.

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

Corporate governance

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

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

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

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

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

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

The company's articles of association provide no guidance on the composition of the board, other than that it must comprise three to nine directors. The articles do not authorise the board to purchase the company's own shares or to issue shares. At the annual general meeting of 11 May, the board was mandated to increase the share capital by up to 10 per cent.

Risk assessments

Overall objectives and strategy

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

Liquidity risk

North Energy's core business is exploration for oil and gas on the NCS. Each drilling operation in which the company participates is expensive, and each well carries a substantial risk of being dry. The group's on-going financing needs are forecast, and the level of activity is tailored to the available liquidity. Its activities in this phase are financed from equity. No loans have been raised other than bridge financing to cover the state's exploration costs until these are refunded through the tax settlement which occurs 12-24 months after the costs have been incurred. North Energy's liquidity was significantly strengthened through a NOK 150 million share issue approved by an extraordinary general meeting of 2 March 2012, and the contribution of NOK 70 million from the sale of the

Fogelberg discovery.

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

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

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

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

HSE

Sickness absence totalled 2.9 per cent in 2011, up by 2.1 percentage points from 2010 but still well below the national average. The company is continuing its efforts to ensure the health of its employees, in part through fitness facilities, the provision of physiotherapists and ergonomic office reviews. Special attention is paid to working posture and prevention of typical strain injuries in a setting characterised by computer screens and long working days in a seated position. HSE expertise has been secured with a background from the company medical service. This will strengthen the company generally for HSE and the working environment.

The board regards a good balance between work and leisure as important. As a result, the company makes provision for flexible arrangements on working hours. A working environment committee (AMU) has been established, and a meeting schedule drawn up for it. The AMU met three times in 2011, and the goals of the annual HSE plan were met. Cooperation with union officials has been constructive and made a positive contribution to operations.

North Energy's activities in 2011 caused only limited pollution of the natural environment. Air travel is the biggest factor in that context. The company makes extensive use of modern video/voice conferencing between its offices to restrict travel. Its operations make no use of environmentally harmful chemicals and do not generate dust or noise.

The company's offices are located in Knowledge Park South, a new building in Alta equipped with modern energy-saving ventilation facilities with timer control. Heating and lighting are reduced at night with the aid of a timer system. That creates a stronger basis for a satisfactory indoor climate. All waste is sorted.

The board regards the psycho-social working environment as satisfactory. A new employee survey is planned for 2012 to follow up the poll conducted in 2010.

North Energy participated in exploration drilling on PL 530 Heilo, where two accidents were reported to the Petroleum Safety Authority Norway. Two near-misses were also reported to the regulator – one on PL 535 Norvarg and the other on PL 503 Valberget. The company fulfilled its compliance responsibility pursuant to the regulatory requirements in all the licences in which it participated in 2011. An accident outside working hours was also recorded among the workforce in 2011.

Research and development

The company's commitment to research and development (R&D) is intended to support its operations and help it reach its operational and strategic goals. North Energy is a young company, where operations relate primarily to exploration, emergency preparedness and building up expertise. This also influences its R&D commitment, which included the establishment of collaboration with research teams and universities in Norway and Russia (St Petersburg) during 2011.

Human resources and equal opportunities

North Energy had 51 employees at 31 December, an increase of eight over the year. In addition, five consultants have been hired to strengthen the company's exploration operations.

The company has a multicultural working environment, with 10 nationalities represented in the workforce. When making new appointments, it will continue to facilitate diversity in, but not confined to, gender, cultural background and experience. Remuneration is determined in accordance with the content of the work and the employee's qualifications. The remuneration of the executive management is described in the notes to the financial statements.

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

Ownership

North Energy had 1 161 shareholders at 31 December. The largest is the UK's Elliot fund, which owns 9.3 per cent of the company and is represented through the Euroclear Bank SA/NV nominee account. Its biggest Norwegian shareholder is SKS Eiendom with 7.3 per cent. The bulk of the company's shareholders reside in northern Norway, but significant holdings are also located in London, Oslo, Stavanger and Helsinki.

Corporate governance

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

Coverage of net loss

North Energy had no distributable equity at 31 December. The board proposes that the net loss of NOK 110.6 million be transferred to uncovered losses.

Alta, 29 March 2012

Johan Petter Barlindhaug
Chair

Leif W Finsveen
Director

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Director

Hans Kristian Rød
Director

Jørn Olsen
Director

Guri H Ingebrigtsen
Director

Heidi M Petersen
Director

Brynjar Forbergskog
Director

Ole Njærheim
Director

Erik Karlstrøm
CEO

Corporate governance

1. Reporting on corporate governance

Corporate governance at North Energy conforms with Norwegian company law and the Norwegian code of practice (the code) for corporate governance as last revised on 21 October 2010.

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

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

It is the executive management's job to ensure that the areas of responsibility, individually and collectively, are prioritised on the basis of these core values and in accordance with the code. The company has drawn up guidelines on ethics and corporate social responsibility.

2. The business

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

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

North Energy's articles of association specify clear parameters for its operations, while visions, goals and strategies are enshrined in its management system. Active efforts were made during 2011 to prepare the company for operator assignments on the NCS. That included the implementation of a new management system as well as an extensive updating of procedures and process descriptions.

3. Equity and dividends

Since its formation in 2007, North Energy has been solely an exploration company without revenues. Its activities are financed through equity, which has been significantly strengthened through the sale of Fogelberg and the issue of new shares. North Energy has not paid a dividend and does not expect to make any dividend payment in the next few years.

4. Equal treatment of shareholders and transactions with close associates

Should North Energy be a party to a transaction with close associates of the company or with companies in which directors or senior executives, or their close associates, have a significant interest, directly or indirectly, the parties concerned must immediately notify the board. All such transactions must be approved by the chief executive and the board and, where required, also be reported to the market. North Energy made no investment in its own shares during 2011.

5. Freely negotiable shares

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

6. General meetings

The company's general meetings in 2011 were held in accordance with the Public Companies Act.

The general meeting is North Energy's highest authority. The board endeavours to ensure that the general meeting is an effective forum for communication between the board and the company's shareholders. At a result, the board makes provision for the highest possible participation by the company's owners at the general meeting. Notice of the meeting and supporting documentation for items on the agenda are made available on the company's website no later than 21 days before the general meeting. Provision is also made to vote in advance of the company's general meeting.

The board determines the agenda for the general meeting. However, the most important items on the agenda are dictated by the Public Companies Act and the company's articles of association.

7. Nomination committee

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

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

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

North Energy has chosen not to have a corporate assembly.

The board is organised in accordance with the Public Companies Act, with three women and five men as shareholder-elected directors. All have broad experience. Four of these directors are elected independently of the company's shareholders. In addition, one director and an observer are elected from and by the company's employees. Neither of them belong to the executive management. The directors represent both industry-specific and professional expertise from national and international companies.

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

9. The work of the board of directors

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

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

The administration is responsible for preparing matters for board meetings. The board ensures that the auditor fulfils a satisfactory and independent control function. It presents the auditor's report to the general meeting, which also approves the remuneration of the auditor. It was resolved in 2010 that the audit committee's duties would be discharged directly by the board.

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

Nine board meetings were held in 2011, all as physical meetings, and average attendance by directors was 86 per cent.

10. Risk management and internal control

North Energy's business is subject to a management system which covers all the areas within which the company operates. This system was updated during 2011, including the implementation of new software which better supports the company's processes and the adoption of governing documents which incorporate company and risk management.

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

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

11. Remuneration of the board of directors

The nomination committee recommends the directors' fees to the general meeting, and takes account of their responsibility, qualifications, time taken and the complexity of the business. None of the director's have assignments for the company other than those presented in this report.

12. Remuneration of executive personnel

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

13. Information and communications

North Energy keeps shareholders and investors regularly informed about its commercial and financial status. The requirements for such information have been increased by the company's stock exchange listing and the expansion in the number of its shareholders. The board is concerned to ensure than players in the stock market receive the same information at the same time, and all financial and commercial information is accordingly made available on the company's website. Stock exchange announcements are distributed through Hugin at www.newsweb.no.

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

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

14. Takeovers

North Energy's articles of association contain no restrictions on or defence mechanisms against the acquisition of the company's shares. In accordance with its general responsibility for the management of North Energy, the board will act in the best interests of all the company's shareholders in such an event.

15. Auditor

The annual financial statements are audited. The board receives and considers the auditor's report after the financial statements for the relevant year have been audited. The auditor submits an annual plan for the conduct of audit work, and attends board meetings when the consideration of accounting matters requires their presence. In at least one of these meetings, the auditor makes a presentation to the board without the executive management being present. The auditor presents a declaration of independence and objectivity.

Alta, 29 March 2012

Johan Petter Barlindhaug
Chair

Leif W Finsveen
Director

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Director

Hans Kristian Rød
Director

Jørn Olsen
Director

Guri H Ingebrigtsen
Director

Heidi M Petersen
Director

Brynjar Forbergskog
Director

Ole Njærheim
Director

Erik Karlstrøm
CEO

North Energy group

Financial statements

Consolidated income statement

(NOK 1 000)	Note	2011	2010
Payroll and related cost	5	(70 949)	(62 149)
Depreciation and amortisation	16	(7 179)	(4 593)
Exploration expenses	17	(340 154)	(179 049)
Other operating expenses	6	(40 004)	(43 445)
Operating loss		**(458 286)**	**(289 236)**
Finance income	18	18 602	9 464
Finance costs	18	(32 095)	(4 740)
Net financial items		**(13 494)**	**4 724**
Loss before income tax		**(471 780)**	**(284 512)**
Income tax credit	15	361 223	221 596
Loss for the year		**(110 556)**	**(62 916)**
Earnings per share (NOK per share)			
- Basic	13	(4.39)	(2.67)
- Diluted	13	(4.39)	(2.67)

Consolidated statement of comprehensive income

(NOK 1 000)	Note	2011	2010
Loss for the year		**(110 556)**	**(62 916)**
Other comprehensive income, net of tax:			
Actuarial gains/-(losses) pension	21	82	(932)
Total other comprehensive income, net of tax		82	(932)
Total comprehensive income for the year		**(110 474)**	**(63 848)**

Consolidated balance sheet

(NOK 1 000)	Note	31.12.11	31.12.10
ASSETS			
Non-current assets			
Property, plant and equipment	16	22 072	16 167
Capitalised exploration and licence costs	17	376 719	128 214
Other receivables	7	19 765	17 528
Total non-current assets		**418 556**	**161 909**
Current assets			
Prepayments and other receivables	8	54 854	37 926
Tax receivable refund tax value exploration expenses	15	553 550	347 532
Financial assets	9	0	4 674
Cash and cash equivalents	9	34 206	86 015
Total current assets		**642 610**	**476 147**
Total assets		**1 061 167**	**638 056**
EQUITY AND LIABILITIES			
Equity			
Share capital	10	25 224	25 150
Share premium		606 141	606 141
Other paid-in capital		29 570	29 570
Retained earnings		(291 159)	(180 685)
Total equity		**369 777**	**480 176**
Liabilities			
Non-current liabilities			
Pension liabilities	21	18 766	15 346
Deferred tax	15	202 225	45 791
Total non-current liabilities		**220 991**	**61 137**
Current liabilities			
Current borrowings	11	348 348	0
Trade creditors		66 108	47 185
Other current liabilities	12	55 943	49 559
Total current liabilities		**470 399**	**96 743**
Total liabilities		**691 390**	**157 880**
Total equity and liabilities		**1 061 167**	**638 056**

Alta, 29 March 2012

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Director

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Director

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Director

Heidi M Petersen
Director

Brynjar Forbergskog
Director

Ole Njærheim
Director

Erik Karlstrøm
CEO

Consolidated statement of changes in equity

(NOK 1 000)	Note	Share capital	Share premium	Other paid-in capital	Retained earnings	Total equity
Equity at 1 January 2010		9 201	233 573	26 999	-116 837	152 935
Transactions with owners:						
Share issues		15 949	390 664	0	0	406 612
Share issue expenses (net after tax)		0	(18 0959	0	0	(18 095)
Share-based payment, bonus shares	5	0	0	2 571	0	2 571
Comprehensive income:						
Total compehensive income for 2010		0	0	0	(63 848)	(63 848)
Equity at 31 December 2010		**25 150**	**606 141**	**29 570**	**(180 685)**	**480 176**
Equity at 1 January 2011		25 150	606 141	29 570	(180 685)	480 176
Transactions with owners:						
Share issues		75	0	0	0	75
Comprehensive income:						
Total compehensive income for 2011		0	0	0	(110 474)	(110 474)
Equity at 31 December 2011		**25 224**	**606 141**	**29 570**	**(291 159)**	**369 777**

Consolidated cash flow statement

(NOK 1 000)	Note	2011	2010
Cash flow from operating activities			
Profit before income tax		(471 780)	(284 512)
Adjustments:			
Tax refunded	15	341 251	160 727
Deprecitiation	16	7 179	4 593
Gain/loss on disposal of property, plant and equipment		(73)	0
Impairment capitalised exploration expenses	17	59 033	52 016
Pensions		925	2 778
Expensed share-based payment recognised in equity		0	2 571
Transaction costs and interest on borrowings recognised in P&L	18	20 068	1 351
Changes in trade creditors		18 924	30 235
Changes in other accruals		(6 363)	(508)
Net cash flow from operating activities		**(30 837)**	**(30 748)**
Cash flow from investing activities			
Purchase of property, plant and equipment	16	(13 212)	(7 076)
Proceeds from sale of property, plant and equipment		202	0
Purchase of intangible assets	15,17	(337 440)	(232 372)
Aquisition of subsidiary, net cash inflow		0	30 931
Changes in other non-current receivables	7	631	(5 520)
Net cash flow from investing activities		**(349 819)**	**(214 038)**
Cash flow from financing activities			
Funds drawn current borrowings	11	700 000	164 478
Repayments of current borrowings	11	(347 827)	(209 478)
Transaction costs and interest on borrowings paid	11,18	(23 400)	(1 351)
Proceeds from share issues		75	331 481
Net cash flow from financing activities		**328 848**	**285 130**
Net change in cash and cash equivalents		**(51 809)**	**40 344**
Cash and cash equivivalents at 1 January	9	86 015	45 671
Cash and cash equivalents at 31 December	**9**	**34 206**	**86 015**

Notes

Note 1
General information

The consolidated financial statements of North Energy were approved by the board of directors and CEO at 29 March 2012.

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

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

Note 2
Summary of significant accounting policies

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

2.1 Basis for preparation

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

The financial statements have been prepared on a historical cost basis except for financial assets at fair value through profit or loss.

2.2 Basis of consolidation

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

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

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

2.3 Foreign currency

Functional currency and presentation currency

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

Transactions in foreign currency

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

2.4 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any impairment charges. 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 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. Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount and are included in operating profit. Major assets with different expected useful lives are reported as separate components. Each component is depreciated on a straight line basis over its expected useful life.

Property, plant and equipment are reviewed for potential impairment whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount is the higher of the asset's fair value less costs required to sell the asset and its value in use. The value in use is determined by reference to discounted future net cash flows expected to be generated by the asset. The difference between the assets carrying amount and its recoverable amount is recognised in the in income statement as impairment. Property, plant and equipment that suffered 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 group uses the successful efforts method to account for exploration costs. All exploration costs, with the exception of acquisition costs of licences and drilling costs of exploration wells, are expensed as incurred. Costs related to drilling of exploration wells are temporarily capitalised pending the evaluation of the potential existence of oil and gas reserves. If reserves are not found, or if discoveries are assessed not to be commercially recoverable, the drilling costs of exploration wells are expensed. Costs of acquiring licences are capitalised as intangible assets.

Capitalised costs of acquiring licences and capitalised costs of drilling exploration wells are assessed for impairment when facts and circumstances suggest that the carrying amount may exceed the recoverable amount. The recoverable amount is the higher 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 takes place when necessary public approvals are given.

2.7 Interests in joint ventures

The group's investments in joint ventures, including jointly controlled operations (oil and gas licences), are accounted for by recognising the company's share of 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 group assumes most of the risk and rewards of ownership, are classified as financial leases. The group does not have any such leases.

Operating leases

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

2.9 Receivables

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

2.10 Financial assets

The group's investment in money market fund is classified as financial assets at fair value through profit or loss.

2.11 Cash and cash equivalents

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

2.12 Borrowings

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

2.13 Taxes

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

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

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

2.14 Pension plans

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

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

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

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

2.15 Share-based payment

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

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

2.16 Provisions

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

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

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

2.17 Trade creditors

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

2.18 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.

2.19 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.

2.20 Segment reporting

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

2.21 Cost of equity transactions

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

2.22 Cash flow statement

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

2.23 Events after the balance sheet date

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

2.24 Changes in accounting policies and disclosures

(a) New and amended standards and interpretations

The following new and amended standards and interpretations effective for the accounting periods starting 1 January 2011, but the adoption did not have any impact on the group's financial statement.

- IAS 24 Related Party Transactions (Amendment)
- IAS 32 Financial Instruments: Presentation (Amendment)
- IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

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

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the group are listed below. Except for the amendment to IFRS 7 none of the below items has been adopted by EU yet.

It is assessed that none of the standards, amendments and interpretation to existing standards will have material impact on the financial statements.

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

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

IAS 12 Income Taxes – Recovery of Underlying Assets (Amendment)

The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after 1 January 2012.

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

IAS 27 Separate Financial Statements (as revised in 2011)
As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)
As a consequence of the new IFRS 11 and IFRS 12. IAS 28 has been renamed IAS 28 Investments in associates and joint ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

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

IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements (Amendment)
The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the group's financial position or performance.

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

IFRS 9 Financial Instruments: Classification and Measurement
IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. According to IASB the standard is effective for annual periods beginning on or after 1 January 2013. EU has not yet decided on effective date. The adoption of the first phase of IFRS 9 may have an effect on the classification and measurement of the group's financial assets and financial liabilities.

IFRS 10 Consolidated Financial Statements
IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after 1 January 2013.

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

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

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

IFRIC 20 Stripping Cost in the Production Phase of a Surface Mine
Not relevant for the group.

Note 3

Financial risk management

3.1 Financial risks

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

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

(a) Credit risk

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

(b) Interest rate risk

The group's exposure to interest rate risk is related to usage of credit facility, with floating interest rate conditions. The group is therefore exposed to interest rate risk as part of its normal business activities and the aim is to keep this risk at an acceptable level. The group has a revolving credit facility which entitles the group a loan up to NOK 760 million. Interest rate is NIBOR + 2%. See note 11 for further information. The loan is secured by a pledge in tax receivables from refund according to the Norwegian Petroleum Tax Act and the interests in production licences which the company at any time has. The group has no other interest-bearing borrowings.

Sensitivity analysis:
Interest rate sensitivity is calculated based on exposure to interest bearing debt on the balance sheet date.
2011: If NIBOR would have been 50 basis points higher/lower, the group's profit after tax would have been NOK 1 254 000 lower/higher.
2010: The group was not exposed to interest bearing debt at 31.12.2010.

(c) Liquidity risk

Liquidity risk is the risk of being unable to pay financial liabilities as they fall due. The group's financial liabilities, both for 2010 and 2011, are short term and fall due within six months.

(d) Currency risk

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

3.2 Capital management

The group's aim for management of capital structure is to secure the business in order to yield profit to shareholders and contributions to other interest groups. In addition, a capital structure at its optimum will reduce the costs of capital. To maintain or change the capital structure in the future, the group can pay dividends to its shareholders, issue new shares or sell assets/licences to reduce debt. The group may buy its own shares. The point of time for this is dependent of changes in market prices.

The group monitors it's capital structure using a equity ratio, which is total equity divided by total assets. As at 31 December 2011 the equity ratio was 34.8% (75.3% as at 31 December 2010). The decrease in equity ratio is mainly caused by increased exploration activity.

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 15.

b) Deferred tax/tax assets

Most critical estimates influencing carrying amount is related to valuations/ judgement of utilisation of deferred tax assets. See note 15.

c) Pensions
The present value of pension liabilities depends on several different factors determined by different actuarial assumptions. The assumptions used to estimate net pension costs/revenue include the discount rate. Changes in this assumption will influence the carrying amount of the pension liabilities.

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

Other pension assumptions are partly based on market terms. Additional information is presented in note 21.

4.2 Critical judgements in applying the company's accounting policies

Management has made judgements also in the process of applying the group's accounting policies. Such judgements with the most significant effect on the amounts recognised in the financial statements are presented in the following:

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

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

Amounts in NOK 1 000	2011	2010
Pay	50 705	42 738
Share-based payment, bonus shares	0	2 571
Payroll tax	3 396	2 848
Pension costs (see note 21)	12 569	9 693
Other benefits	4 279	4 298
Total	**70 949**	**62 149**
Average number of employees	46.1	42.7

Remuneration to board of directors and management in 2011:

Amounts in NOK 1 000	Directors' fees	Pay	Bonus	Pension	Other *
Management					
Erik Karlstrøm (CEO)		3 102	663	3 438	94
Knut Sæberg (CFO)		2 091	432	362	13
Erik Henriksen (exploration manager) **		1 265	0	207	9
Astrid M Tugwell (development manager)		1 372	275	240	13
Lars Tveter (HSE manager)		1 198	270	456	93
Vigdis Wiik Jakobsen (business development and portfolio manager)		1 553	183	319	16
Marion Høgmo (administration manager)		967	195	137	16
Kristin Ingebrigtsen (strategy and public relations manager) **		817	124	101	8
Directors:					
Johan P Barlindhaug (chair)	360				
Brynjar K Forbergskog (director)	0				
Ole Njærheim (director)	120				
Guri Helene Ingebrigtsen (director)	120				
Leif W Finsveen (director)	120				
Harriet Hagan (director)	0				
Hans Kristian Rød (director)	120				
Heidi Marie Petersen (director)	120				
Jørn Olsen (director)	60				
Kristin Ingebrigtsen (former director)	120				
Arnulf Østensen (former director)	120				
Total	**1 260**	**12 365**	**2 143**	**5 260**	**265 ***

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

*** Erik Henriksen employed from 01.05.2011 and Kristin Ingebrigtsen employed from 01.06.2011*

Remuneration of the CEO:
The company's CEO has an agreement with an annual salary of NOK 2.65 million. Other benefits include free car, loan interest rate benefit, and regular allowances to cover telephone, internet, training fee, pension, group life insurance and travel insurance. In addition, he is included in the company's general employee bonus programme as determined by the board of directors. The bonus is limited to 1/3 of fixed salary, with distribution 50/50 on cash and bonus shares, where the cash bonus is earned first. In case of resignation at the request of the board of directors, the CEO has a right to a severance payment equivalent to two year's gross fixed salary. If the CEO resigns, there is no severance payment. The CEO furthermore has an early retirement pension scheme from the age of 62 until the ordinary retirement age (67 years), where the pension is 67% of final salary paid.

Bonus programme:
The management is included in the company's general employee bonus programme as determined by the board of directors. The bonus is limited to 1/3 of fixed salary, with distribution 50/50 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:
The CEO and CFO have agreements covering severance payment. In the event of resignation at the request of the board of directors, they have the right to a severance payment equivalent to two year's gross fixed salary.

Information about loans to employees 2011:

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

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

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

Remuneration of board of directors and management in 2010:

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

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

*** Employed from 01.10.2010*

Information about loans to employees 2010:

Amounts in NOK 1 000	Loans at 31.12.11	Maturity	Interest rate
Loan to Erik Karlstrøm	1 546	10 years	2%
Loans to other employees	9 964	20 years	2% *
Total	11 510		

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

The loans are provided for the purpose of house purchase and private estates are pledged as security. If employment is terminated, 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 must prepare a declaration in accordance with section 6-16a of the Norwegian Public Limited Liability Companies Act (Allmennaksjeloven). In accordance with section 7-31b of the Norwegian Accounting Act, the content of this declaration is presented.

The main principle for the company is that the renumeration of management is competitive in a way that the company is able to attract and retain competent management employees. The remuneration will be competitive and based on individual criteria such as experience, area of responsibility and achievement of results. The remuneration system for management employees will furthermore encourage a strong and lasting profit oriented organisation which contributes to increasing 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 programme. 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 areas of responsibility. Both financial and non-financial parameters are used.

(3) Pension and insurance. The management is included in the company's general pension and insurance scheme. CEO has in addition an early retirement pension scheme from the age of 62 until the ordinary retirement age (67 years), where the pension is 67% of last annual salary.

(4) Severance payment. The CEO and CFO have agreements covering severance payment. In the event of resignation at the request of the board of directors, they have the right to a severance payment equivalent to two year's gross fixed salary.

(5) Other benefits such as free car, loan interest rate benefit, and regular allowances to cover telephone, internet, training fee and travel insurance.

Note 6

Other operating expenses and remuneration of auditor

Other operating expenses include:

Amounts in NOK 1 000	2011	2010
Travelling expenses	6 863	6 300
Lease expenses (see note 20)	6 189	6 445
Consultant's and other fees	6 404	8 898
Advertising costs	4 103	3 967
Other administrative expenses	16 446	17 836
Total	40 004	43 445

The auditor's fee comprises:

Amounts in NOK 1 000	2011	2010
Audit	432	461
Attestations	31	102
Accounting assistance	5	24
Due diligence, prospectus	0	215
Other assistance	10	0
Total, excl VAT	477	803

Note 7

Other non-current receivables

Other non-current receivables include:

Amounts in NOK 1 000	2011	2010
Loans to employees (note 5)	10 857	11 510
Deposit	446	424
Pension assets (note 21)	8 462	5 594
Total	19 765	17 528

Note 8
Prepayments and other receivables

Prepayments and other receivables include:

Amounts in NOK 1 000	2011	2010
Prepaid expenses	2 563	3 137
VAT receivable	3 380	4 372
Receivables, joint ventures	48 806	30 417
Other items	105	0
Total	54 854	37 926

Note 9
Cash and cash equivalents and financial assets

Cash and cash equivalents:

Amounts in NOK 1 000	2011	2010
Bank deposits	34 206	86 015
Total cash and cash equivalents	34 206	86 015
Of this:		
Restricted cash for witheld taxes from employees' salaries	3 124	3 012

Financial assets:

Amounts in NOK 1 000	2011	2010
Investment in money market fund	0	4 674
Total financial assets	0	4 674

Note 10

Share capital and shareholder information

	2011	2010
Number of outstanding shares at 1 January	25 149 736	9 200 970
New shares issued during the year:		
Issued in exchange for cash	74 657	14 061 974
Issued as consideration at acquisition of 4Sea Energy AS	0	1 886 792
Number of outstanding shares at 31 December	25 224 393	25 149 736
Nominal value NOK per share at 31 December	1	1
Share capital NOK at 31 December	25 224 393	25 149 736

North Energy has one class of shares with equal rights for all shares. No dividends have been proposed or paid in 2010 or 2011.

Main shareholders at 31 December 2011:

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

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

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

Main shareholders 31 December 2010:

Shareholder	Number of shares	% share
UBS AG LONDON BRANCH	2 446 500	9.73%
SKS EIENDOM AS	1 824 920	7.26%
JPB AS	1 350 000	5.37%
ORIGO KAPITAL AS	1 248 100	4.96%
ONSHORE GROUP NORDLAND AS	933 340	3.71%
IHM HOLDING AS	739 929	2.94%
SKANDINAVISKA ENSKILDA BANKEN	645 300	2.57%
KAPNORD FOND AS	640 000	2.54%
ALTA KRAFTLAG A/L	600 230	2.39%
THE NORTHERN TRUST CO	564 900	2.25%
IKM INDUSTRI-INVEST AS	545 648	2.17%
STATE STREET BANK & TRUST CO	536 008	2.13%
MORGAN STANLEY & CO INTERNAT PLC	531 227	2.11%
NINERIK AS	516 735	2.05%
BANK OF NEW YORK MELLON SA/NV	500 000	1.99%
CACEIS BANK	484 670	1.93%
THE NORTHERN TRUST CO	442 204	1.76%
DNB NOR SMB	435 000	1.73%
LEONHARD NILSEN & SØNNER AS	431 210	1.71%
FIRST SECURITIES AS	425 000	1.69%
Total 20 largest shareholders	**15 840 921**	**62.99%**
Other shareholders	9 308 815	37.01%
Total	**25 149 736**	**100.00%**

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

Management		
Erik Karlstrøm (CEO), directly and through Ninerik AS	629 543	2.50%
Knut Sæberg (CFO)	16 500	0.07%
Svein Johansen (exploration manager)	38 210	0.15%
Astrid M Tugwell (development manager)	36 012	0.14%
Lars Tveter (HSE manager)	37 615	0.15%
Vigdis Wiik Jakobsen (portfolio manager)	41 000	0.16%
Marion Høgmo (administration manager)	5 039	0.02%
Directors		
Johan P Barlindhaug (chair), through JPB AS	1 350 000	5.37%
Arnulf Østensen (director)	10 000	0.04%
Jørn Olsen (director)	2 886	0.01%
Total	**2 166 805**	**8.62%**

Note 11
Current borrowings

Current borrowings include:

Amounts in NOK 1 000	2011	2010
Revolving credit facility (exploration loan), funds drawn	352 173	0
Revolving credit facility (exploration loan), transaction costs	(3 825)	0
Balance 31 December	**348 348**	**0**

Maturity for funds drawn is in December 2012. In February 2012, the group has expanded its exploration loan facility from NOK 760 million to NOK 950 million. Interest rate is still NIBOR + 2%.
The loan is secured by a pledge in tax receivables from refund pursuant to the Norwegian Petroleum Tax Act and the interests in production licences which the company at any time has.

Note 12
Other current liabilities

Amounts in NOK 1 000	2011	2010
Public duties payable	3 802	3 475
Accruals, joint ventures	29 828	25 657
Holiday pay and bonus payable	12 262	10 719
Other accruals for incurred costs	10 050	9 708
Total	**55 943**	**49 559**

Note 13
Earnings per share

	2011	2010
Loss for the year (NOK 1 000)	(110 556)	(62 916)
Weighted average number of shares outstanding	25 187 576	23 554 223
Earnings per share (NOK per share)		
- Basic	(4.39)	(2.67)
- Diluted	(4.39)	(2.67)

Note 14 Related parties

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

(a) Purchases of services

Purchase of services from	Description of services	2011	2010
Origo Økonomipartner AS (100% owned by Origo Nord AS, management company for shareholder Origo Kapital AS)	Accounting services	155	155
Origo Nord AS (management company for shareholder Origo Kapital AS)	Information, administrative and consulting services	27	56

Services are purchased on market terms.

(b) Remuneration to management and directors

See note 5.

(c) Loans to related parties

See note 5 for information about loans to employees.

(d) Overview of subsidiaries

The following subsidiaries are included in the consolidated financial statements:

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

Note 15 Tax

Specification of income tax:

Amounts in NOK 1 000	2011	2010
Calculated refund tax value of exploration costs this year	553 550	347 728
Of this refund not recognised in income statement (acquisition of licences recognised net of tax)	(29 902)	(67 258)
Correction refund previous years	(6 281)	(2 627)
Change deferred tax in balance	(156 434)	(45 791)
Of this deferred tax asset not recognised in income statement (acquisition of licences recognised net of tax)	0	(115)
Of this deferred tax asset related to items in comprehensive income recognised in comprehensive income	291	(3 304)
Of this deferred tax asset related to equity transactions recognised directly in equity	0	(7 037)
Total income tax credit	**361 223**	**221 596**

Specification of tax receivable refund tax value exploration expenses:

Amounts in NOK 1 000	31.12.11	31.12.10
Calculated refund tax value of exploration costs this year	553 550	348 289
Correction refund previous years, assessed but not settled	0	(4 881)
Correction refund previous years, assessed but appealed	0	4 124
Total tax receivable refund tax value exploration expenses	**553 550**	**347 532**

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

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

Amounts in NOK 1 000	31.12.11	31.12.10
Property, plant and equipment	4 310	4 279
Capitalised exploration and licence costs	361 818	121 748
Financial assets	0	97
Pensions	(10 304)	(9 752)
Current borrowings	3 825	0
Tax losses carried forward, onshore	(35 645)	(37 327)
Tax losses carried forward, offshore only 28% basis	(49 968)	(31 308)
Tax losses carried forward, offshore only 50% basis	(887)	(870)
Tax losses carried forward, offshore both 28% and 50% basis	(95 439)	(64 614)
Total basis for deferred tax	**177 710**	**(17 746)**
Deferred tax (liability) / asset	(179 753)	(20 668)
Not capitalised deferred tax asset (valuation allowance) *	(22 472)	(25 124)
Deferred tax (liability) / tax asset in balance sheet	**(202 225)**	**(45 791)**

** Not capitalised deferred tax asset is mainly related to onshore tax loss carried forward and offshore tax losses carried forward in subsidiary 4Sea Energy AS.*

Reconciliation of effective tax rate:

Amounts in NOK 1 000	2011	2010
Loss before tax	(471 780)	(284 512)
Expected income tax credit 78%	367 988	221 919
Adjusted for tax effects (28% - 78%) of the following items:		
Permanent differences	(2 504)	(18 298)
Correction previous years	(2 046)	(57)
Interest on tax losses carried forward offshore	1 277	448
Finance items	(6 143)	2 555
Change in valuation allowance for deferred tax assets and other items	2 652	15 028
Total income tax credit	**361 223**	**221 596**

Note 16 Property, plant and equipment

Amounts in NOK 1000	Equipment, office machines etc
2011	
Cost:	
At 1.1.2011	26 250
Additions - acquired separately	13 212
Disposals	(1 329)
At 31.12.2011	**38 133**
Depreciation and impairment:	
At 1.1.2011	(10 082)
Depreciation this year	(7 179)
Impairment this year	0
Disposals	1 200
At 31.12.2011	**(16 061)**
Carrying amount at 31.12.2011	**22 072**

Amounts in NOK 1000	Equipment, office machines etc
2010	
Cost:	
At 1.1.2010	18 877
Additions - acquired separately	7 076
Additions - acquired through acquisition of subsidiary 4Sea Energy AS	298
Disposals	0
At 31.12.2010	**26 250**
Depreciation and impairment:	
At 1.1.2010	(5 489)
Depreciation this year	(4 593)
Impairment this year	0
Disposals	0
At 31.12.2010	**(10 082)**
Carrying amount at 31.12.2010	**16 167**
Economic life	3-10 years
Depreciation method	linear

Note 17 Capitalised and expensed exploration and licence costs

(a) Capitalised exploration and licence costs

Amounts in NOK 1000	Capitalised exploration and licence costs
2011	
Cost:	
At 1.1.2011	128 214
Additions - capitalised exploration and licence costs *	307 538
Disposals **	(59 033)
At 31.12.2011	**376 719**
Amortisation and impairment:	
At 1.1.2011	0
Amortisation this year	0
Impairment this year **	(59 033)
Disposals **	59 033
At 31.12.2011	**0**
Carrying amount at 31.12.2011	**376 719**

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

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

Amounts in NOK 1000	Capitalised exploration and licence costs
2010	
Cost:	
At 1.1.2010	9 382
Additions - capitalised exploration and licence costs *	164 999
Additions - through acquisition of subsidiary 4Sea Energy AS **	5 849
Disposals ***	(52 016)
At 31.12.2010	**128 214**
Amortisation and impairment:	
At 1.1.2010	0
Amortisation this year	0
Impairment this year ***	(52 016)
Disposals **	52 016
At 31.12.2010	**0**
Carrying amount at 31.12.2010	**128 214**

* Additions are mainly related to drilling of exploration well in licence PL 433 where North Energy in addition to its own share of 12% carries 8% of all expenses, and the acquisition cost of licence PL 341 recognised net of tax together with

drilling of exploration well in licence PL 341, where North Energy in addition to its own share of 11% carries 7% of the drilling expenses for the first well.
** Additions include mainly licences PL 498 (25% share) and PL 503 (25% share).
*** Disposals are related to impairment of capitalised expenses in licence PL 341 owing to dry well result.

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

(b) Expensed exploration and licence costs

Specification of expensed exploration and licence costs:

Amounts in NOK 1 000	2011	2010
Share of exploration expenses from participation in licences, incl seismic, G&G, dry wells, carry	219 841	73 448
Impairment of capitalised exploration expenses	59 033	52 016
Seismic and other exploration costs	61 281	53 585
Total exploration and licence costs	**340 154**	**179 049**

Note 18 Finance income and costs

Finance income:

Amounts in NOK 1 000	2011	2010
Interest income bank deposits	1 006	4 236
Interest income on tax refund	6 372	2 864
Other interest income	293	202
Foreign exchange gain	8 845	2 158
Finance income, joint ventures	2 084	0
Other finance income	2	5
Total finance income	**18 602**	**9 464**

Finance costs:

Amounts in NOK 1 000	2011	2010
Interest expense and transaction costs on current borrowings	20 068	1 351
Foreign exchange loss	12 009	2 025
Finance costs, joint ventures	0	1 337
Other finance costs	18	28
Total finance costs	**32 095**	**4 740**

Note 19 Financial instruments

(a) Categories of financial instruments

At 31 December 2011:

Amounts in NOK 1 000	Loans and receivables	Financial assets at fair value through profit or loss
Assets:		
Other non-current receivables1)	11 302	0
Other current receivables	48 912	0
Financial assets (money market fund)	0	0
Cash and cash equivalents	34 206	0
Total	**94 420**	**0**

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

At 31 December 2010:

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

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

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

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

(b) Fair value of financial instruments

Fair value other non-current receivables:
The fair value of other non-current receivables is calculated by discounting cash flows with a rate equal to an alternative rate of 5% (2010: 5%). The discount rate correspond to 10-year fixed-rate loans with the addition of relevant credit rating.

Amounts in NOK 1 000	**2011**	**2010**
Other non-current receivables	8 788	9 268

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

(c) Creditworthiness of financial assets

The group does not have a system that separates receivables and loans on counterparty credit rating. Non-current receivables are mainly loans to employees. Loans to employees are repaid by agreement and these loans have not been impaired in 2010 or 2011. Cash and cash equivalents and financial assets are receivables from banks, and Standard & Poor's credit rating of these banks is presented below:

	2011	2010
Bank deposits and investment in money market fund:	34 206	90 688

Amounts in NOK 1000	2011	2010
No external credit rating	0	0
A	34 206	90 688
AA	0	0
Total	**34 206**	**90 688**

(d) Financial risk factors

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

Note 20 Leases

North Energy has no finance leases.
North Energy has entered into operating leases for office premises, cars, machinery and office furniture.
The leases do not contain any restrictions on the company's dividend policy or financing opportunities.

The lease costs consist of the following:

Amounts in NOK 1000	2011	2010
Lease office premises (inclusive joint costs)	6 169	5 695
Lease machinery and office furniture	663	736
Lease cars	650	1 009
Sublease office premises	-1 294	-995
Total lease costs	**6 189**	**6 445**

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

Amounts in NOK 1000	2011	2010
Within 1 year - leases	4 124	1 378
Within 1 year - subleases	-523	-1 256
1 to 5 years - leases	12 132	2 526
1 to 5 years - subleases	0	-523
After 5 years	13 730	0
Total net lease	**29 461**	**2 124**

Note 21 Pension

Actuarial assumptions:

	2011	2010
Discount rate	3.60%	4.50%
Expected rate of return on plan assets	5.00%	5.70%
Expected annual salary increases	4.00%	4.50%
Expected annual adjustment of pension benefits	3.75%	4.25%
Expected regulation of national insurance base rate (G)	3.75%	4.25%
Mortality assumptions are based on mortality table	K2005	K2005
Disability assumptions are based on disability table	IR02	R02

Pension expense recognised in income statement:

Amounts in NOK 1 000	2011	2010
Current service cost	11 505	8 917
Interest cost	920	604
Expected return on plan assets	(503)	(342)
Social security cost	646	514
Total pension expense included in payroll and related cost	**12 569**	**9 693**

Specification of net pension liability:

Amounts in NOK 1 000	2011	2010
Present value of funded obligations at 31.12	36 132	26 295
Estimated fair value of plan assets at 31.12	25 829	16 543
Net pension liability	**10 304**	**9 752**

Classification of net pension liability in the balance sheet:

Amounts in NOK 1 000	2011	2010
Other non-current receivables (note 7)	8 462	5 594
Pension liabilities	18 766	15 346
Net pension liability	**10 304**	**9 752**

One individual pension plan is over-funded by NOK 8 462 000 at the end of 2011 (NOK 5 594 000 at the end of 2010). The overfunding 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	2011	2010
Defined benefit obligations at 1 January	26 295	13 699
Current service cost	11 505	8 917
Interest cost	920	604
Actuarial losses / (gains)	(2 588)	3 075
Liability for defined benefit obligations at 31 December	**36 132**	**26 295**

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

Amounts in NOK 1 000	2011	2010
Fair value of plan assets at 1 January	16 543	10 961
Expected return on plan assets	503	342
Actuarial (losses) / gains	(2 215)	(1 161)
Employer contributions	10 998	6 401
Fair value of plan assets at 31 December	**25 829**	**16 543**

Plan assets are composed as follows	2011	2010
Shares	18.7%	13.5%
Short-term bonds	15.4%	23.3%
Money market	13.6%	8.5%
Long-term bonds	33.2%	35.7%
Property	17.6%	16.6%
Other	1.5%	2.3%
Total	**100.0%**	**100.0%**

	2011	2010
Actual return on plan assets	3.50%	6.20%

	2011	2010
Expected contributions to funded plans next year	8 594	4 550

The pension arrangements fulfil the requirements in the Norwegian Act on Mandatory Occupational Pensions.

Historical information:

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

Note 22 Contingent liabilities

North Energy has not been involved in any legal or financial disputes in 2011 or 2010, where an adverse outcome is considered more likely than remote.

Note 23 Shares in licences and obligations

Shares in licences at 31 December 2011:

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

Shares in licences at 31 December 2010:

Licence	Share
PL 341	11%
PL 385	15%
PL 433	12%
PL 498	25%
PL 503	25%
PL 510	20%
PL 518/518B	30%
PL 526	40%
PL 530	20%
PL 535	20%
PL 536	20%
PL 562	10%
PL 564	20%

Obligations at 31 December 2011:

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

Obligations at 31 December 2010:

Licence	Share	Obligation	Expected time
PL 385	15%	One firm well. Carry 7.5% of the total licence cost until completion of the first well.	Well 4Q-2011/1Q-2012
PL 518	30%	One firm well and one contingent well (2-1). Well 2 contingent on positive results in well 1.	First well 4Q-2011
PL 530	20%	One firm well and one contingent well (2-1). Well 2 contingent on positive results in well 1.	First well 3Q-2011
PL 535	20%	One firm well.	Well 2Q-2011

Note 24 Acquisition of subsidiary

In February 2010, North Energy completed the acquisition of 100% of the outstanding shares in 4Sea Energy AS. The consideration for the aquisition comprised 1 886 792 newly issued shares in North Energy, each with par value of NOK 1 and at a price of NOK 26.5, i e, a total consideration of NOK 50 million. 4Sea Energy AS is a company in the exploration phase with a 25% interest in licence PL 498 and a 25% interest in licence PL 503. The acquisition is deemed an asset acquisition and not a business combination, i.e. no deferred tax on initial differences between carrying values and tax bases is recorded, and no goodwill is recorded at the date of acquisition.

Note 25 Events after the balance sheet date

In January 2012, North Energy was awarded two new licences in the 2011 APA. Following this award, the group now holds a total of 24 licences, including two operatorship on the NCS.

In February 2012, the group has expanded its exploration loan facility from NOK 760 million to NOK 950 million. The interest rate is still NIBOR + 2%.

North Energy has in February 2012 entered into an agreement to sell its 12% interest in licence PL 433 Fogelberg for NOK 70 million (post tax) to Centrica Resources (Norway). Effective date for the transaction is 1 January 2012. The completion of the transaction is subject to approval by the Norwegian authorities.

In March 2012, North Energy ASA completed a private placement and a subsequent repair offering. A total of 15 589 055 new shares were issued at NOK 10 per share (total gross proceeds of NOK 155.9 million). The share capital after these share issues is NOK 40 813 448 divided into 40 813 448 shares each with a par value of NOK 1.

North Energy ASA
Financial statements

Income statement

(NOK 1 000)	Note	2011	2010
Payroll and related cost	5	(70 057)	(61 512)
Depreciation and amortisation	16	(7 182)	(4 296)
Exploration expenses	17	(316 643)	(177 071)
Other operating expenses	6	(39 128)	(40 678)
Operating loss		**(433 010)**	**(283 556)**
Finance income	18	18 351	8 524
Finance costs	18	(33 430)	(4 734)
Net financial items		**(15 079)**	**3 790**
Loss before income tax		**(448 089)**	**(279 766)**
Income tax credit	15	338 841	217 216
Loss for the year		**(109 248)**	**(62 550)**

Statement of comprehensive income

(NOK 1 000)	Note	2010	2009
Loss for the year		**(109 248)**	**(62 550)**
Other comprehensive income, net of tax:			
Actuarial gains / (losses) pension	21	82	(932)
Total other comprehensive income, net of tax		**82**	**(932)**
Total comprehensive income for the year		**(109 166)**	**(63 482)**

Balance sheet

(NOK 1 000)	Note	2011	2010
ASSETS			
Non-current assets			
Property, plant and equipment	16	22 072	16 167
Capitalised exploration and licence costs	17	367 657	122 365
Investment in subsidiaries	13	50 000	50 000
Other receivables	7	19 765	17 524
Total non-current assets		**459 494**	**206 057**
Current assets			
Prepayments and other receivables	8	51 199	37 225
Receivable from subsidiary		404	0
Tax receivable refund tax value exploration expenses	15	531 168	342 591
Cash and cash equivalents	9	34 054	49 366
Total current assets		**616 824**	**429 182**
Total assets		**1 076 318**	**635 239**

(NOK 1 000)	Note	2011	2010
EQUITY AND LIABILITIES			
Equity			
Share capital	10	25 224	25 150
Share premium		606 141	606 141
Other paid-in capital		29 570	29 570
Retained earnings		(289 485)	(180 319)
Total equity		**371 451**	**480 542**
Liabilities			
Non-current liabilities			
Pension liabilities	21	18 766	15 346
Deferred tax	15	202 225	45 791
Total non-current liabilities		**220 991**	**61 137**
Current liabilities			
Current borrowings	11	348 348	0
Loan from subsidiary	22	17 984	0
Trade creditors		65 002	46 200
Other current liabilities	12	52 542	47 360
Total current liabilities		**483 875**	**93 560**
Total liabilities		**704 867**	**154 697**
Total equity and liabilities		**1 076 318**	**635 239**

Alta, 29 March 2012

Johan Petter Barlindhaug
Chair

Leif W Finsveen
Director

Harriet Hagan
Director

Hans Kristian Rød
Director

Jørn Olsen
Director

Guri H Ingebrigtsen
Director

Heidi M Petersen
Director

Brynjar Forbergskog
Director

Ole Njærheim
Director

Erik Karlstrøm
CEO

Statement of changes in equity

(NOK 1 000)	Note	Share capital	Share premium	Other paid-in capital	Retained earnings	Total equity
Equity at 1 January 2010		9 201	233 573	26 999	-116 837	152 935
Transactions with owners:						
Share issues		15 949	390 664	0	0	406 612
Share issue expenses (net after tax)		0	(18 095)	0	0	(18 095)
Share-based payment, bonus shares	5	0	0	2 571	0	2 571
Comprehensive income:						
Total compehensive income for 2010		0	0	0	(63 482)	(63 482)
Equity at 31 December 2010		**25 150**	**606 141**	**29 570**	**(180 319)**	**480 542**
Equity at 1 January 2011		25 150	606 141	29 570	(180 319)	480 542
Transactions with owners:						
Share issues		75	0	0	0	75
Comprehensive income:						
Total compehensive income for 2011		0	0	0	(109 166)	(109 166)
Equity at 31 December 2011		**25 224**	**606 141**	**29 570**	**(289 485)**	**371 451**

Cash flow statement

(NOK 1 000)	Note	2011	2010
Cash flow from operating activities			
Loss before income tax		(448 089)	(279 766)
Adjustments:			
Tax refunded	15	336 309	147 090
Deprecitiation	16	7 182	4 296
Gain/loss on disposal of property, plant and equipment		(37)	0
Impairment capitalised exploration expenses	17	59 033	52 016
Pensions		925	2 778
Expensed share-based payment recognised in equity		0	2 571
Transaction costs and interest on borrowings recognised in P&L	18	21 402	1 351
Changes in trade creditors		18 802	29 250
Changes in other accruals		(9 692)	3 948
Net cash flow from operating activities		**(14 165)**	**(36 467)**
Cash flow from investing activities			
Purchase of property, plant and equipment	16	(13 087)	(7 076)
Proceeds from sale of property, plant and equipment		37	0
Purchase of intangible assets	15,17	(334 226)	(232 372)
Changes in other non-current receivables	7	631	(5 520)
Net cash flow from investing activities		**(346 644)**	**(244 968)**
Cash flow from financing activities			
Funds drawn current borrowings	11,22	743 000	164 478
Repayments of current borrowings	11,22	(374 177)	(209 478)
Transaction costs and interest on borrowings paid	11,18	(23 400)	(1 351)
Proceeds from share issues		75	331 481
Net cash flow from financing activities		**345 498**	**285 130**
Net change in cash and cash equivalents		**(15 312)**	**3 695**
Cash and cash equivivalents at 1 January	9	49 366	45 671
Cash and cash equivivalents at 31 December	**9**	**34 054**	**49 366**

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 on 5 February 2010. The company's only business segment is exploration for oil and gas on the Norwegian continental shelf.

The financial statements were approved by the board of directors and the CEO at x April 2012.

Note 2 Summary of significant accounting policies

2.1 Basis for preparation

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

2.2 Accounting policies

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

Note 3 Financial risk management

Note 4 Critical accounting estimates and judgements

See notes 3 and 4 to the consolidated financial statements.

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

Amounts in NOK 1 000	2011	2010
Pay	49 814	42 264
Share-based payment, bonus shares	0	2 571
Payroll tax	3 396	2 746
Pension costs	12 569	9 693
Other benefits	4 279	4 238
Total	70 057	61 512
Average number of employees	46.1	42.7

Remuneration of board of directors and management:

See note 5 to the consolidated financial statements.

Information about loans to employees, incl interest benefit 2010:

See note 5 to the consolidated financial statements.

The board of director's declaration regarding determination of pay and other remuneration of management employees

The board of directors must prepare a declaration in accordance with section 6-6a of the Norwegian Public Limited Liability Companies Act. In accordance with section 7-31b of the Norwegian Accounting Act 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 of management employees comprises:

Total remuneration to management employees include:
(1) Market based fixed salary.
(2) Bonus. The management is included in the company's general employee bonus programme. The bonus is limited to 1/3 of fixed salary, with distribution 50/50 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 areas of responsibility. Both financial and non-financial parameters are used.
(3) Pension and insurance. The management is included in the company's general pension and insurance scheme. The CEO has in addition an early retirement pension scheme from the age of 62 until the ordinary retirement age (67 years), where the pension is 67% of last annual salary.
(4) Severance payment. The 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 year's gross fixed salary.
(5) Other benefits such as free car, loan interest rate benefit, and regular allowances to cover telephone, internet, training fee and travel insurance.

Note 6 Other operating expenses and remuneration of auditor

Other operating expenses include:

Amounts in NOK 1 000	2011	2010
Travelling expenses	6 863	6 263
Lease expenses	5 910	5 131
Consultant and other fees	6 089	8 135
Advertising costs	4 103	3 967
Other administrative expenses	16 163	17 181
Total	39 128	40 678

The auditor's fee is allocated as specified below:

Amounts in NOK 1 000	2011	2010
Audit	324	310
Attestations	31	102
Accounting assistance	5	24
Due diligence, prospectus	0	215
Other assistance	10	0
Total, excl VAT	369	651

Note 7 Other non-current receivables

Other non-current receivables include:

Amounts in NOK 1 000	2011	2010
Loans to employees (note 5)	10 857	11 510
Deposit	446	421
Pension assets (note 21)	8 462	5 594
Total	19 765	17 524

Note 8 Prepayments and other receivables

Prepayments and other receivables include:

Amounts in NOK 1 000	2011	2010
Prepaid expenses	2 206	2 718
VAT receivable	3 178	4 156
Receivables, joint ventures	45 712	30 351
Other items	102	0
Total	51 199	37 225

Note 9 Cash and cash equivalents

Amounts in NOK 1 000	2011	2010
Bank deposits	34 054	49 366
Total cash and cash equivalents	34 054	49 366
Of this:		
Restricted cash for witheld taxes from employees' salaries	3 124	3 012

Note 10 Share capital and shareholder information

Note 11 Current borrowings

See notes 10 and 11 to the consolidated financial statements.

Note 12 Other current liabilities

Amounts in NOK 1 000	2011	2010
Public duties payable	3 802	3 463
Accruals, joint ventures	28 427	25 657
Holiday pay and bonus payable	12 262	10 662
Other accruals for incurred costs	8 050	7 579
Total	52 542	47 360

Note 13 Investment in subsidiaries

Amounts in NOK 1 000

Company	Acquisition date	Location	Equity and voting share	Book value 31.12.2011	Book value 31.12.2010
4Sea Energy AS	11-02-2010	Norway	100,00 %	50 000	50 000
Total				50 000	50 000

On 11 February 2010 North Energy ASA completed the acquisition of 100% of the outstanding shares in 4Sea Energy AS. The consideration for the aquisition comprise 1 886 792 new issued shares in North Energy ASA, each with par value of NOK 1 and at a price of NOK 26.5, i e, a total consideration of NOK 50 million. 4Sea Energy AS is a company in the exploration phase with a 25% interest in licence PL 498 and a 25% interest in licence PL 503.

Note 14 Related parties

See note 14 to the consolidated financial statements.

Note 15 Tax

Specification of income tax:

Amounts in NOK 1 000	2011	2010
Calculated refund tax value of exploration costs this year	531 168	343 348
Of this refund not recognised in income statement (acquisition of licences recognised net of tax)	(29 902)	(67 258)
Correction refund previous years	(6 281)	(2 627)
Change deferred tax in balance	(156 434)	(45 791)
Of this deferred tax asset not recognised in income statement (acquisition of licences recognised net of tax)	0	(115)
Of this deferred tax asset related to items in comprehensive income recognised in comprehensive income	291	(3 304)
Of this deferred tax asset related to equity transactions recognised directly in equity	0	(7 037)
Total income tax credit	**338 841**	**217 216**

Specification of tax receivable refund tax value exploration expenses:

Amounts in NOK 1 000	31.12.11	31.12.10
Calculated refund tax value of exploration costs this year	531 168	343 348
Correction refund previous years, assessed but not settled	0	(4 881)
Correction refund previous years, assessed but appealed	0	4 124
Total tax receivable refund tax value exploration expenses	**531 168**	**342 591**

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

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

Amounts in NOK 1 000	31.12.11	31.12.10
Property, plant and equipment	4 503	4 462
Capitalised exploration and licence costs	358 604	121 748
Pensions	(10 304)	(9 752)
Current borrowings	3 825	0
Tax losses carried forward, onshore	0	0
Tax losses carried forward, offshore only 28% basis	(46 372)	(27 782)
Tax losses carried forward, offshore only 50% basis	(887)	(870)
Tax losses carried forward, offshore both 28% and 50% basis	(77 694)	(47 217)
Total basis for deferred tax	**231 675**	**40 589**
Deferred tax (liability) / tax asset	(202 225)	(45 791)
Not capitalised deferred tax asset (valuation allowance)	0	0
Deferred tax (liability) / tax asset in balance sheet	**(202 225)**	**(45 791)**

Reconciliation of effective tax rate:

Amounts in NOK 1 000	2011	2010
Profit before tax	(448 089)	(279 766)
Expected income tax credit 78%	349 509	218 218
Adjusted for tax effects (28% - 78%) of the following items:		
Permanent differences	(2 504)	(18 072)
Correction previous years	(2 046)	(57)
Interest on tax losses carried forward offshore	986	448
Finance items	(7 104)	2 088
Change in valuation allowance for deferred tax assets and other items	0	14 592
Total income tax credit	**338 841**	**217 216**

Note 16 Property, plant and equipment

Amounts in NOK 1000	Equipment, office machines, etc
2011	
Cost:	
At 1.1.2011	25 952
Additions	13 087
Disposals	0
At 31.12.2011	**39 039**
Depreciation and impairment:	
At 1.1.2011	(9 785)
Depreciation this year	(7 182)
Impairment this year	0
Disposals	0
At 31.12.2011	**(16 967)**
Carrying amount at 31.12.2011	22 072

Amounts in NOK 1000	Equipment, office machines, etc
2010	
Cost:	
At 1.1.2010	18 877
Additions	7 076
Disposals	0
At 31.12.2010	**25 952**
Depreciation and impairment:	
At 1.1.2010	(5 489)
Depreciation this year	(4 296)
Impairment this year	0
Disposals	0
At 31.12.2010	**(9 785)**
Carrying amount at 31.12.2010	16 167
Economic life	3-10 years
Depreciation method	linear

Note 17 Capitalised and expensed exploration and licence costs

(a) Capitalised exploration and licence costs

Amounts in NOK 1000	Capitalised exploration and licence costs
2011	
Cost:	
At 1.1.2011	122 365
Additions *	304 324
Disposals **	(59 033)
At 31.12.2011	**367 657**
Amortisation and impairment:	
At 1.1.2011	0
Amortisation this year	0
Impairment this year **	(59 033)
Disposals **	59 033
At 31.12.2011	**0**
Carrying amount at 31.12.2011	367 657

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

* Disposals relate to impairment of capitalised expenses in licence PL 530 Heilo and licence PL 518 Zapffe due to dry well result.

Amounts in NOK 1000	Capitalised exploration and licence costs
2010	
Cost:	
At 1.1.2010	9 382
Additions *	164 999
Disposals **	(52 016)
At 31.12.2010	**122 365**
Amortisation and impairment:	
At 1.1.2010	0
Amortisation this year	0
Impairment this year **	(52 016)
Disposals **	52 016
At 31.12.2010	**0**
Carrying amount at 31.12.2009	122 365

* Additions are mainly related to drilling of exploration well in licence PL 433 where North Energy in addition to its own share of 12% carries 8% of all expenses, and the acquisition cost of licence PL 341 recognised net of tax together with drilling of exploration well in licence PL 341, where North Energy in addition to its own share of 11% carries 7% of the drilling expenses for the first well.
(**) Disposals are related to impairment of capitalised expenses in licence PL 341 due to dry well result.
Depreciation method: Capitalised exploration and licence costs will be depreciated using the unit-of-production method, if and when reserves are produced.

(b) Expensed exploration and licence costs

Specification of expensed exploration and licence costs:

Amounts in NOK 1 000	2011	2010
Share of exploration expenses from participation in licences, incl seismic, G&G, dry wells, carry	196 330	71 470
Impairment of capitalised exploration expenses	59 033	52 016
Seismic and other exploration costs	61 281	53 585
Total exploration and licence costs	**316 643**	**177 071**

Note 18 Finance income and costs

Finance income:

Amounts in NOK 1 000	2011	2010
Interest income bank deposits	868	3 660
Interest income on tax refund	6 276	2 504
Other interest income	289	202
Foreign exchange gain	8 845	2 158
Finance income, joint ventures	2 073	0
Other finance income	1	1
Total finance income	**18 351**	**8 524**

Finance costs:

Amounts in NOK 1 000	2011	2010
Interest expense and transaction costs on current borrowings	20 068	1 351
Interest expense on loan from subsidiary	1 334	0
Foreign exchange loss	12 009	2 024
Finance costs, joint ventures	0	1 337
Other finance costs	18	23
Total finance costs	**33 430**	**4 734**

Note 19 Financial instruments

(a) Categories of financial instruments

At 31 December 2011:

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

Amounts in NOK 1 000	Financial liabilities measured at amortised cost
Liabilities:	
Trade creditors	65 002
Other current liabilities[2]	40 689
Current borrowings	348 348
Total	**454 038**

At 31 December 2010:

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

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

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

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

(b) Fair value of financial instruments

Fair value other non-current receivables:
The fair value of other non-current receivables is calculated by discounting cash flows with a rate equal to an alternative rate of 5% (2010: 5%). The discount rate correspond to 10-year fixed-rate loans with the addition of relevant credit rating.

Amounts in NOK 1 000	2011	2010
Other non-current receivables	8 788	9 265

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

(c) Creditworthiness of financial assets

The company does not have a system that separates receivables and loans on counterparty credit rating.
Non-current receivables are mainly loans to employees. Loans to employees are repaid according to agreement and these loans have not been impaired in 2010 or 2011. Cash and cash equivalents are receivables from banks, and Standard & Poor's credit rating of these banks is presented below:

	2011	2010
Bank deposits:	34 054	49 366

Amounts in NOK 1 000	2011	2010
No external credit rating	0	0
A	34 054	49 366
AA	0	0
Total	34 054	49 366

(d) Financial risk factors

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

Note 20 Leases

The company has no finance leases.
The company has entered into operating leases for office premises, cars, machinery and office furniture.
The leases are cancellable and do not 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	2011	2010
Lease office premises (inclusive joint costs)	4 892	3 962
Lease machinery and office furniture	368	161
Lease cars	650	1 009
Total lease costs	5 910	5 131

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

Amounts in NOK 1 000	2011	2010
Within 1 year	2 746	0
1 to 5 years	10 984	0
After 5 years	13 730	0
Total	**27 459**	**0**

Note 21 Pension

See note 21 to the consolidated financial statements.

Note 22 Loan from subsidiary

Amounts in NOK 1 000	2011	2010
Loan from subsidiary 4Sea Energy AS	17 984	0
Total	17 984	0

Interest rate is NIBOR + 2.5%. The loan is planned to be repaid in 2012.

Note 23 Contingent liabilities

The company has not been involved in any legal or financial disputes in 2011 or 2010, where adversely outcome is considered more likely than remote.

Note 24 Shares in licences and obligations

Shares in licences at 31 December 2011:

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

Shares in licences at 31 December 2010:

Licence	Share
PL 341	11%
PL 385	15%
PL 433	12%
PL 510	20%
PL 518/518B	30%
PL 526	40%
PL 530	20%
PL 535	20%
PL 536	20%
PL 562	10%
PL 564	20%

Obligations at 31 December 2011:

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

Obligations at 31 December 2010:

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

Note 25 Events after the balance sheet date

See note 25 to the consolidated financial statements.

Responsibility statement by the board of directors and CEO

We declare, to the best of our judgement, that the annual financial statements for the period from 1 January to 31 December 2011 have been prepared in accordance with the applicable accounting standards, and that the information in the accounts fairly reflects the company's and group's assets, liabilities, financial position and results as a whole. We also declare that the directors' report provides a true and fair view of the company's and group's performance, results and position, along with a description of the most important risk and uncertainty factors facing the company and group.

Alta, 29 March 2012

Johan Petter Barlindhaug
Chair

Leif W Finsveen
Director

Harriet Hagan
Director

Hans Kristian Rød
Director

Jørn Olsen
Director

Guri H Ingebrigtsen
Director

Heidi M Petersen
Director

Brynjar Forbergskog
Director

Ole Njærheim
Director

Erik Karlstrøm
CEO

Auditor's report

To the Annual Shareholders' Meeting of North Energy ASA

Independent auditor's report

Report on the Financial Statements

We have audited the accompanying financial statements of North Energy ASA, which comprise the financial statements of the parent company and the financial statements of the group. The financial statements of the parent company and the financial statements for of group comprise the balance sheet as at 31 December 2011, income statement, statement of comprehensive income, changes in equity and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements are prepared in accordance with the law and regulations and present fairly, in all material respects, the financial position for the parent company and the group North Energy ASA as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

PricewaterhouseCoopers AS, Postboks 6128, NO-9291 Tromsø
T: 02316, www.pwc.no
Org.no.: 987 009 713 MVA, Medlem av Den norske Revisorforening

Report on Other Legal and Regulatory Requirements

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

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

Opinion on Registration and Documentation

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

Tromsø, 19 April 2012
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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