

# **NORECO NORWAY AS** ANNUAL REPORT 2015



**Noreco Norway AS**  
Badehusgata 37  
P.O. Box 550 Sentrum  
4003 Stavanger

[www.noreco.com](http://www.noreco.com)

# 2015

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# DIRECTOR'S REPORT

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## NORECO NORWAY AS

Noreco Norway AS was established in 2004 and is a wholly owned subsidiary of Altinex ASA. Altinex ASA is a wholly owned subsidiary of Norwegian Energy Company ASA ("Noreco") a company quoted on the Oslo Stock Exchange. Due to the NOR06 listing, Noreco Norway has during 2015 changed its financial reporting from NGAAP to IFRS. The company has been focusing on exploration for and production of hydrocarbon resources on the Norwegian continental shelf.

Due to a number of unplanned events in the Noreco Group and in the company including technical issues at producing fields, reduced reserves, oil price development and lack of exploration success Noreco in late 2014 had to realise the lack of ability to service its debt and entered into a dialogue with its creditors.

In March 2015 a financial restructuring of Noreco and the company was agreed, including amended maturities, with possible payment-in-kind ("PIK") interests and no fixed amortisations except final maturity in three years, but with "cash sweep" if cash should become available. NOR06 changed borrower to Noreco Norway AS without any recourse to the parent company or other parts of the group. For Noreco Norway, the restructuring also had the following implications:

Noreco Norway AS received an increased share capital of NOK 103.5 million, whereof NOK 73 million in cash and NOK 30.5 million by conversion of intercompany debt to equity.

Nordic Trustee, on behalf of the bondholders of NOR06 was given an option to purchase all outstanding shares of, and any intercompany claims on, Noreco Norway AS for NOK 1. If the purchase option is exercised, the Noreco group may cancel the option for a consideration of NOK 30 million, or by exercising the call option on the bond loan.

In addition, certain amendments to the exploration loan agreement were agreed upon and executed. The amendments included a reduction in the borrowing limit from NOK 850 million to NOK 500 million. This was later reduced to NOK 400 million. In addition, the cross default clause was removed and the previously issued parent company guarantee issued by Norwegian Energy Company ASA was cancelled.

The restructuring was completed on 24 March 2015.

In conjunction with the financial restructuring a new strategy was implemented. The new strategy entailed an exit from oil and gas activities, limiting all commitments, and reducing costs and monetising remaining assets in order to repay bond debt and maximise value for shareholders.

## FINANCIAL POSITION AND SUMMARY OF COMPLETED FINANCIAL RESTRUCTURING

On 30 June Noreco Norway entered into an agreement with CapeOmega to sell its 15 per cent participating interests in the Norwegian shelf licences PL274 and PL274 CS, which includes the Oselvar field with associated tax balances for a total consideration of NOK 201 million. The transaction was effective as of 1 January 2015. The transfer of licence interests was completed on 25 November 2015 following approvals from the Norwegian Authorities. The net proceeds (after pro & contra settlement adjustment since effective date) were transferred to the NOR06 proceeds account as defined in the loan agreement, and used to re-pay the NOR06 bondholders.

On 21 December 2015 Noreco Norway announced that it had entered into an agreement to transfer its 4.36% participating interest in the Enoch licence to CapeOmega AS

On 21 December 2015 Norwegian Energy Company ASA announced that its fully owned subsidiary Noreco Norway had entered into an agreement with Djerv Energi AS ('Djerv') for the sale of its exploration licence interests, organisation and management systems. On 3 February 2016 Noreco announced that it had failed to achieve necessary approval for the transaction from bondholders in NOR06.

Subsequently, on 2 March 2016, Noreco announced that its fully owned subsidiary Noreco Norway had entered into a Sale and Purchase Agreement ('SPA') with Det norske oljeselskap ASA ('Detnor') for the sale of its remaining exploration licences, employees and a cash balance of approximately NOK 45 million, to be adjusted for working capital. The effective date of the transaction is 1 January 2016. Subject to completion, the proposed transaction, together with the Enoch transaction, will constitute a ceasing of all of Noreco Norway's petroleum activities. Added to the proceeds from the Oselvar sale this is expected to result in an estimated recovery of approximately 94.7% of the initial principal amount under the NOR06 bond issue.

The transaction with Detnor was approved by NOR06 bondholders on 16 March 2016, but the transaction is still conditional upon approvals by the Ministry of Petroleum and Energy and the Ministry of Finance. The approval is expected in the near future.

In line with above mentioned strategy excess cash has been used for the repayment of outstanding bond debt. Noreco has since the restructuring made the following payments on NOR06:

On 1 July 2015 Noreco reported of the sale of Oselvar and announced that the net proceeds (after pro & contra settlement adjustment since effective date) would be transferred to proceeds account and used to pay the NOR06 bondholders. The payment was done 6 March 2016.

On 31 August 2015, the company announced that the interest payment due 6 September 2015 would be paid in kind by increasing par value.

The outstanding principal amount after repayment in March 2016 is NOK 482 million. A defined payment plan was approved in the bondholder meeting held on 16 March, 2016. An addendum and revision to the original NOR06 agreement has subsequently been formalised.

## FINANCIAL RESULTS FOR 2015

Due to the disposal of a significant part of the activities, the accounts are presented with continued and discontinued operations. For comparison the 2014 statements have been restated to reflect continued operations only and below comments will concentrate on the continued operations. Due to the fact that all hydrocarbon activities, including all employees, have been disposed of the company only has financial activities.

**Net financial items in 2015** amounted to NOK 75 million including NOK 278 million related to the amended and restated NOR06 bond loan being recognized at fair value and extinguishment of debt, as part of the Noreco group's financial restructuring. For accounting purposes, the previous bond loan was derecognised, while the new equity and amended and restated bond loan was recognised at fair value upon initial recognition.

The company's **net result** for the year from continued operations amounted to a profit of NOK 55 million compared to a loss of NOK 26 million in 2014.

**Result from discontinued operations** amounted to a loss of NOK 292 million compared to a loss of NOK 218 million in 2014. Revenue was in 2015 NOK 57 million from discontinued operations. A decrease from NOK 101 million in 2014. The main reason for the decrease was due to lower realised oil prices. The result in 2014 was heavily influenced by write downs amounting to of NOK 388 million whereas the write down in 2015 amounted to NOK 3 million. Exploration cost amounted to NOK 374 million in 2015 compared to NOK 221 million in 2014.

**Net result** for the full year 2015 was a loss of NOK 237 million, compared to a loss of NOK 244 million last year.

**Net cash flow from operations** in 2015 amounted to NOK 99 million. Cash and cash equivalent excluding restricted cash of NOK 179 million was NOK 100 million at year end 2015, up from NOK 17 million at the end of 2014 excluding restricted cash of NOK 34 million.

Interest-bearing debt, including exploration loan, had a book value of NOK 637 million (principal amount NOK 748 million) on 31 December 2015, compared to NOK 923 million at the end of 2014.

## THE GOING CONCERN ASSUMPTION

Pursuant to the Norwegian Accounting Act section 3-3a, the board confirms that the requirements of the going concern assumption are met and that the annual accounts have been prepared on that basis. The financial solidity and the company's cash position are considered satisfactory in regards of the planned activity level for the next twelve months. During the next twelve months the company will cease all of its petroleum activities, and the company will claim tax refund, which is expected to be paid from the tax authorities in late 2017. Due to the stock announcement regarding the Djerv deal was made after the last trade, valuation techniques have been used in order to determine a best estimate for the fair value of the bonds. The bonds have been valued based on the information on the Djerv-deal and the announced estimated repayment to the Bondholders.

## FINANCIAL RISK

Noreco Norway's most significant risk factors are related to tax and transaction risk.

## HEALTH, ENVIRONMENT AND SAFETY

Noreco puts emphasis on everyone performing company activities in line with good business integrity and with respect for people and the environment.

Still in 2015 Noreco Norway was involved in exploration and production of oil and gas which could cause emissions to the sea and air. Noreco's operations were in accordance with all regulatory requirements, and there were no breaches of these requirements in 2015

## PERSONNEL RESOURCES AND WORKING ENVIRONMENT

As a consequence of the new strategy, the company has during the year downsized the number of employees.

At the start of 2015 the company had 36 employees, and at the end of the year this number was reduced to 21.

The company's board of directors consists of one woman and two men, all elected by shareholders.

During 2015 the work environment committee was disbanded. The safety delegate role during 2015 was occupied by a woman.

Noreco pays equal salaries and gives equal compensation for positions at the same level, regardless of gender, ethnicity, religion or disabilities

Sick leave in Noreco has increased compared to the earlier low figures and was 5.3 percent in 2015 versus 2.4 percent in 2014.

The management's compensation is described in note 24 to the annual accounts.

## RESEARCH AND DEVELOPMENT

The company has during the year discontinued all research and development and going forward Noreco will have no research and development activities .

## ALLOCATIONS

The result for the year for Noreco Norway AS in 2015 was a loss of NOK 237 million. The board proposes the following allocations:

Transfer to other equity: NOK 237 million.

The company's total equity as of 31.12.2015 is NOK 0 million.

## OUTLOOK

After a year of intense work and a number of transactions announced and executed the focus of the board remain on repaying outstanding debt in accordance with the announcements made. During the next twelve months the company will cease all of its petroleum activities, and the company will claim tax refund, which is expected to be paid from the tax authorities in late 2017.

*Approved by the board 30 April 2016*

**Riulf Rustad (Sign)**  
*Board member*

**Silje Augustson (Sign)**  
*Chair of the board*

**Roar Flom (Sign)**  
*Board member*

**Lars Fosvold (Sign)**  
*General Manager*

# STATEMENT



# STATEMENT OF COMPREHENSIVE INCOME

NOK million	Note	2015	Re-presented* 2014
<b>Continued operations</b>			
<b>Net operating result (EBIT)</b>			
Financial income	6	337	6
Financial expenses	6	(262)	(42)
<b>Net financial items</b>		<b>75</b>	<b>(36)</b>
<b>Result before tax (EBT)</b>		<b>75</b>	<b>(36)</b>
Income tax benefit / (expense)	7	(20)	10
<b>Net result for the period continued operation</b>		<b>55</b>	<b>(26)</b>
<b>Discontinued operation</b>			
Profit (loss) from discontinued operation (net of income tax)	5	(292)	(218)
<b>Net result for the period</b>		<b>(237)</b>	<b>(244)</b>
<b>Total comprehensive income for the period (net of tax)</b>		<b>(237)</b>	<b>(244)</b>

\*) re-presented for discontinued operations

# STATEMENT OF FINANCIAL POSITION

NOK million	Note	31.12.15	Re-presented* 31.12.14	Re-presented* 01.01.14
<b>Non-current assets</b>				
Licence and capitalised exploration expenditures	8	-	259	148
Deferred tax assets	7	350	513	345
Property, plant and equipment	9	-	-	352
Restricted cash	11,14	2	2	-
<b>Total non-current assets</b>		<b>353</b>	<b>774</b>	<b>845</b>
<b>Current assets</b>				
Assets held for sale	18	12	-	-
Tax refund	7	119	315	378
Trade receivables and other current assets	10,14	3	38	45
Restricted cash	11,14	177	32	4
Bank deposits, cash and cash equivalents	11,14	100	17	12
<b>Total current assets</b>		<b>412</b>	<b>402</b>	<b>439</b>
<b>Total assets</b>		<b>764</b>	<b>1 176</b>	<b>1 284</b>
<b>Equity</b>				
Share capital	16	1 234	1 131	1 131
Other equity		(1 234)	(1 006)	(767)
<b>Total equity</b>		<b>0</b>	<b>125</b>	<b>364</b>
<b>Non-current liabilities</b>				
Asset retirement obligations	15	0	73	15
Bond loan	12,14	367	-	-
Debt to group companies	12,14	-	639	490
<b>Total non-current liabilities</b>		<b>367</b>	<b>712</b>	<b>505</b>
<b>Current liabilities</b>				
Liabilities held for sale	18	107	-	-
Bond loan	12,14	160	-	-
Other interest bearing debt	12,14	110	284	333
Trade payables and other current liabilities	13,14	19	55	83
<b>Total current liabilities</b>		<b>397</b>	<b>339</b>	<b>415</b>
<b>Total liabilities</b>		<b>763</b>	<b>1 051</b>	<b>920</b>
<b>Total equity and liabilities</b>		<b>764</b>	<b>1 176</b>	<b>1 284</b>

\*) re-presented for discontinued operations

## STATEMENT OF CHANGES IN EQUITY

NOK million	Share capital	Other equity	Total
<b>2014</b>			
Equity on 01.01.2014	1 131	(767)	364
Net result for the period	-	(244)	(244)
Total comprehensive income for the period (net of tax)		(244)	(244)
Transactions with owners			
Share-based incentive program	-	5	5
Total transactions with owners for the period		5	5
Equity on 31.12.2014	1 131	(1 006)	125
<b>2015</b>			
Equity on 01.01.2015	1 131	(1 006)	125
Net result for the period	-	(237)	(237)
Transactions with owners			
Proceeds from share issued	103	-	103
Share-based incentive program	-	9	9
Total transactions with owners for the period	103	9	112
Equity on 31.12.2015	1 234	(1 234)	0

## STATEMENT OF CASH FLOWS

NOK million	Note	2015	2014
Net result for the period		(237)	(244)
Income tax benefit	7	(199)	(483)
<i>Adjustments to reconcile net result before tax to net cash flows from operating activities:</i>			
Tax refunded	7	314	378
Depreciation			15
Write-downs and reversal of write-downs	9	3	388
Expensed exploration expenditures previously capitalised	8	329	156
Share-based payments expenses		9	5
Unrealized loss (gain) related to financial instruments		(25)	
Net change in fair value of bond	6,12	168	
Change in fair value of debt on first time recognition	6,12	(278)	
Paid/received interests and borrowing cost - net		16	14
Effect of changes in exchange rates		(2)	(2)
Accretion expense related to asset retirement obligations	15	5	3
<i>Changes in working capital</i>			
Changes in trade receivable		10	(11)
Changes in trade payables		(3)	(1)
Changes in other current balance sheet items		(12)	(20)
<b>Net cash flow from operations</b>		<b>99</b>	<b>197</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of fixed assets	9	173	0
Purchase of tangible assets	9	(1)	(0)
Purchase of intangible assets	8	(71)	(267)
<b>Net cash flow used in investing activities</b>		<b>102</b>	<b>(267)</b>
<b>Cash flows from financing activities</b>			
Issue of share capital	16	73	
Proceeds from utilisation of exploration facility	12	110	291
Proceeds from utilisation of overdraft facility			149
Repayment of exploration facility	12	(284)	(352)
Interest paid		(16)	(14)
<b>Net cash flow from (used) in financing activities</b>		<b>(117)</b>	<b>75</b>
<b>Net change in cash and cash equivalents</b>		<b>83</b>	<b>5</b>
Cash and cash equivalents at the beginning of the period		17	12
<b>Cash and cash equivalents at end of the quarter</b>		<b>100</b>	<b>17</b>

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16

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# NOTES

# NOTES

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## 1 Accounting principles

Noreco Norway AS is a public limited company registered in Norway, with headquarters in Badehusgata 37, 4014 Stavanger. Following the restructuring in March 2015, the company's objective has been changed into monetizing the company's assets with the aim to repay outstanding debt. Any surplus cash will be paid out to shareholders or invested in relevant activities. The company is a 100% ultimately owned subsidiary of Norwegian Energy Company ASA.

The financial statement for 2015 was approved by the Board of Directors on 30 April 2016 and will be presented for approval at the Annual General Meeting on 26 May 2016.

### 1.1 Basis of preparation

The annual financial statement for 2015 will be the Company's first annual financial statements prepared in accordance with International Financial Reporting Standards and IFRS Interpretations Committee (IFRS IC) interpretations as adopted by the EU (IFRS). The annual financial statements for 2014 were originally prepared in accordance with Norwegian Generally Accepted Accounting Principles (NGAAP). The date of transition to IFRS is 1 January 2014.

The financial statement in this report, including comparative information, is prepared based on IFRSs effective for periods ending on 31 December 2014. In accordance with the Norwegian Accounting Act, section 3-3a, the Board of Directors confirms that the financial statement has been prepared under the assumption of going concern and that this is the basis for the preparation of the financial statements. Due to the stock announcement regarding the Djerv deal was made after the last trade, valuation techniques have been used in order to determine a best estimate for the fair value of the bonds. The bonds have been valued based on the information on the Djerv-deal and the announced estimated repayment to the Bondholders. The cash flow forecasts for Noreco Norway indicate that liquidity will be manageable in the next 12 months without any financial support from the group. The forecasts are based on a number of assumptions pertaining to future operating conditions, market conditions and the timing of certain events. The financial solidity and the Company's cash position at 31 December 2015 was considered satisfactory in regards of the planned activity level in 2016. The Board of Directors is of the opinion that the financial statements give a true and fair view of the Company's assets, debt, financial position and financial results. The Board of Directors are not aware of any factors that materially affect the assessment of the Company's position as of 31 December 2015, besides what is disclosed in the Director's report and the financial statements.

The subtotals and totals in some of the tables may not equal the sum of the amounts shown due to rounding. Certain amounts in comparable periods have also been revised to conform to current period presentation.

### 1.2 New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these consolidated financial statements.

#### **IFRS 9 Financial instruments**

IFRS 9 Financial instruments addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial assets. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to the classification and measurement rules except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the "hedged ratio" to be the same as the one management actually uses for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted, but is not approved by EU yet. The company is yet to assess IFRS 9's full impact.

#### **IFRS 15 Revenue from contracts with customers**

IFRS 15 Revenue from contracts with customers' deals with revenue recognition and established principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 Revenue and IAS 11 Construction contracts and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted, but is not approved by EU yet. The company is yet to assess the impact of IFRS 15.

#### **IFRS 16 Leases**

IFRS 16 Leases, issued in January 2016 and effective from 1 January 2019, covers the recognition of leases and related disclosure in the financial statements, and will replace IAS 17 Leases. In the financial statement of lessees, the new standard requires recognition of all contracts that qualify under its definition of a lease as right-of-use assets and lease liabilities in the balance sheet, while lease payments are to be reflected as interest expense and reduction of lease liabilities. The right-of-use assets are to be depreciated in accordance with IAS 16 Property, Plant and Equipment over the shorter of each contract's term and the assets' useful life. The standard consequently implies a significant change in lessees' accounting for leases currently defined as operating leases under IAS 17, both as regards impact on the balance sheet and the statement of income. Since the company has limited leases the new standard is not expected to have a material effect.

#### **Disclosure Initiative (Amendments to IAS 1)**

On December 18, 2014, the IASB issued amendments made to IAS 1. The revisions pertain to various disclosure requirements, and clarify that information needs to be disclosed in the notes only if it is material for the company. This explicitly applies if a standard calls for a list of minimum disclosures. Explanations are moreover provided on the aggregation and disaggregation of line items in the balance sheet and income statement. Furthermore, the revised standard clarifies how an entity's share of the other comprehensive income of equity-accounted companies is to be presented in the income statement. The changes will be effective for reporting periods beginning on or after January 1, 2016. The amendments are not expected to have a material effect on the company.

#### **Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization**

The IASB issued amendments to IAS 16 and IAS 38 on May 12, 2014. These revisions provide further guidance on determining an acceptable method of depreciation and amortization. Revenue-based methods are not permissible for property, plant and equipment and are only permissible for intangible assets in specific exceptional cases (rebuttable presumption of inappropriateness). The changes will be effective for reporting periods beginning on or after January 1, 2016. The amendments are not expected to have a material effect on the company.

#### **Amendments to IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations**

The IASB issued amendments to IFRS 11 on May 6, 2014. IFRS 11 includes regulations on the recognition of assets and liabilities and gains or losses of joint ventures and joint operations. Whereas joint ventures are accounted for using the equity method, joint operations, according to IFRS 11, are recognized in a similar fashion to proportional consolidation. With the changes in IFRS 11, IASB regulates the accounting for the acquisition of shares in a joint operation, which constitutes a business according to IFRS 3 – Business Combinations. In such cases, the acquirer shall apply the principles of the accounting for business combinations according to IFRS 3. Furthermore, the disclosure requirements in IFRS 3 also apply in such cases. The changes will be effective for reporting periods beginning on or after January 1, 2016. The amendments are not expected to have a material effect on the company.

#### **IFRS Annual Improvements Cycle 2010–2012**

Under its Annual Improvement Project, the IASB issued amendments to several standards on December 12, 2013. The affected standards are IFRS 2, IFRS 3, IFRS 8, IAS 16, IAS 24, and IAS 38. The amendments address details of the recognition, measurement and disclosure of business transactions or serve to standardize terminology. The European Union endorsed the changes on January 9, 2015. In a deviation from the IASB's effective date (reporting periods beginning on or after July 1, 2014), IFRS-based financial statements in the European Union must apply the changes for reporting periods beginning on or after February 1, 2015. The amendments are not expected to have a material effect on the company.

#### **IFRS Annual Improvements Cycle 2012–2014**

Under its Annual Improvement Project, the IASB issued amendments to several standards on September 25, 2014. The affected standards are IAS 19, IAS 34, IFRS 5 and IFRS 7. The amendments address details of the recognition, measurement and disclosure of business transactions or serve to standardize terminology. The changes will be effective for reporting periods beginning on or after January 1, 2016. An endorsement by the European Union was issued on December 16, 2015. The amendments are not expected to have a material effect on the company.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the company.

## **1.3 Segment reporting**

The company's segments were established on the basis of the most appropriate distribution of resource and result measurement. Segment reporting is regularly evaluated by the company management. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer (CEO). The company has one reporting segment. Noreco Norway AS's operations are all conducted in Norway. Information about reserves is given in note 23.



## 1.4 Foreign currency translation

### a) Functional and presentation currency

The financial statements are presented in Norwegian Kroner (NOK), which is the company's presentation currency and functional currency.

### b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured.

Foreign exchange gains and losses are recognised in the income statement as other financial income or other financial expenses.

## 1.5 Property, plant and equipment

Property, plant and equipment include production facilities, assets under construction and machinery and equipment. Items of property, plant and equipment are measured at cost, less accumulated depreciation and accumulated impairment losses. Cost includes purchase price or construction cost and any costs directly attributable to bringing the assets to a working condition for their intended use, including capitalised borrowing expenses incurred up until the time the asset is ready to be put into operation.

For property, plant and equipment where asset retirement obligations for decommissioning and dismantling are recognised as a liability, this value will be added to acquisition cost for the respective assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in the income statement using the effective interest method.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment and depreciated separately.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Gain or loss from sale of property, plant and equipment, which is calculated as the difference between the sales consideration and the carrying amount, is reported in the income statement under other (losses)/gains.

Expenses related to drilling and equipment for exploration wells where proven and probable reserves are discovered are capitalised and depreciated using the unit-of-production (UoP) method based on the proven and probable reserves expected to be produced from the well. Development cost related to construction, installation and completion of infrastructural facilities such as platforms, pipelines and drilling of production wells, are capitalised as producing oil and gas fields. They are depreciated using the unit-of-production method based on the proven and probable developed reserves expected to be recovered from the area for the economic lifetime of the field. For fields where the oil share of the reserves constitutes the most significant part of the value, the capitalised cost is depreciated based on produced barrels of oil. This gives a more correct matching of expenses and revenue than using all produced oil equivalents. If realisation of the probable reserves demands further future investments, these are added to the basis of depreciation.

Acquired assets used for extraction and production of petroleum deposits, including licence rights, are depreciated using the unit-of-production method based on proven and probable reserves.

Historical cost price for other assets is depreciated over the estimated useful economic life of the asset, using the straight line method.

The estimated useful lives are as follows:

- Office equipment and fixtures: 3-5 years

Assets under construction are not depreciated until the asset is put into operation.

Depreciation methods, useful lives, residual values and reserves are reviewed at each reporting date and adjusted if appropriate.

## 1.6 Intangible assets

### **Licence and capitalised exploration expenditures**

Exploration costs are accounted for in accordance with the successful effort method. This means that all exploration costs including pre-operating costs (seismic acquisitions, seismic studies, internal man hours, etc.) are expensed as incurred. Exceptions are costs related to acquisition of licences and drilling of exploration wells.

Exploratory wells are accounted for as follows:

- Costs of exploratory wells which result in proven reserves remain capitalised, but reclassified to property, plant and equipment when the development plan is approved and initiated.
- Costs of dry exploratory wells and wells where proven reserves were not found are expensed in the income statement when sufficient information to complete the assessment has been gathered.
- Cost of exploration wells are temporarily capitalised until a determination is made as to whether the well has found proven reserves or not. In the period before proven reserves are determined and any development begins, the following two conditions must be met:
  - o The well has found a sufficient quantity of reserves to justify its completion as a producing well, if appropriate, assuming that the required capital expenditures are made;
  - o The company is making sufficient progress assessing the reserves and the economic and operating viability of the project. This progress is evaluated on the basis of indicators such as:
    - Whether additional exploration works are under way or firmly planned, and/or there is nearby exploration activity which is expected to contribute to development of the company's discoveries (wells, seismic or significant studies),
    - Whether costs are being incurred for development studies,
    - Whether the company is waiting for governmental or other third-party authorisation of a proposed project,
    - Whether the company is waiting for availability of capacity on an existing transport or processing facility to be able to produce the existing discovery, and
    - Whether there is a common understanding among the partners to wait with further progress for a specific discovery until an ongoing development project is on stream.

Costs of exploration wells not meeting these conditions are charged to expense on the line item for exploration expenses.

When acquiring shares in exploration licences ("farm-in" agreements) where the agreement is to cover a share of the sellers ("farmor") cost, these expenses are charged in the same manner as own exploration expenses in the income statement.

For similar sales of assets in exploration licences (farm-out agreements), the company will normally surrender parts of a licence given that the buyer ("farmee") carries some defined cost.

The seller does not recognise any gain/loss but treats the cost as a cost reduction as cost occurs.

In those cases where the carry period starts before the accounting date of the agreement, a profit/loss calculation may be necessary.

## 1.7 Impairment of non-financial assets

### **a) Unit of account**

The company applies each prospect, discovery, or field as unit of account for allocation of profit or loss and balance sheet items.

When performing impairment testing of licence and capitalised exploration expenses and production facilities, each prospect, discovery, or field is tested separately as long as they are not defined to be part of a larger cash generating unit.

To be able to group exploration and evaluation assets into one cash-generating unit, they should normally be planned to be part of a joint development, or it is planned and likely that a new discovery can be tied back to another of the company's fields.

Developed fields producing from the same offshore installation are treated as one joint cash generating unit. The size of a cash-generating unit can not be larger than an operational segment.

### **b) Impairment testing**

Intangible assets with an indefinite useful life are not subject to amortisation and are tested annually for impairment. Property, plant and equipment subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

## 1.8 Financial assets

### 1.8.1 Classification

The company classifies financial assets in the following categories: Financial assets at fair value through profit or loss and loans and receivables. The classification depends on the purpose of the asset. Management determines the classification of its financial assets at initial recognition.

#### **a) Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current.

#### **b) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The company's loans and receivables comprise 'trade and other receivables', "restricted cash" and 'cash and cash equivalents' in the balance sheet.

### 1.8.2 Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss, are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'Other (losses)/gains' in the period in which they arise.

## 1.9 Impairment of financial assets

#### **a) Assets carried at amortised cost**

The company assesses whether there is objective evidence that a financial asset or group of financial assets is impaired at the end of each reporting period. A financial asset or a group of financial assets is impaired and 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 of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For the loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the company may measure impairment on the basis of an instrument's fair value using an observable market price.

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 (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

## 1.10 Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

## 1.11 Cash and cash equivalents

Cash and cash equivalents includes cash, bank deposits and short term liquid placements, that immediately and with insignificant share price risk can be converted to known cash amounts and with a remaining maturity less than three months from the date of acquisition.

## 1.12 Over-/under lifting of hydrocarbons

Over lifting of hydrocarbons is presented as current liabilities, under lifting of hydrocarbons is presented as current receivables. The value of over lifting or under lifting is measured at the estimated sales value, less estimated sales costs. Over lifting and under lifting of hydrocarbons are presented at gross value. Over-/under lift positions at the balance sheet date, are expected to be settled within 12 months from the balance sheet date.

For the accounts, the items are treated as financial instruments at fair value through profit or loss. The item is considered to be a financial instrument as the over/under lift position will be settled in cash at the end of the fields' life time or when the licence is sold or returned

## 1.13 Share capital and share premium

Ordinary shares are classified as equity. Costs directly attributable to the issue of new shares or option shares are recognised as a deduction from equity, net of any tax effects.

## 1.14 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are measured at fair value at first time recognition. Subsequent measurements are considered trade payables at amortised cost when using effective interest rate.

## 1.15 Borrowings

Borrowings are recognised initially at fair value. The subsequent measurement depends on which category they have been classified into. The categories applicable for company are either financial liabilities measured at fair value through profit or loss or financial liabilities measured at amortised cost using the effective interest method. The company has designated the amended and restated bond loan at fair value through profit or loss.

Borrowings are classified as non-current if contractual maturity is more than 12 months from the balance sheet date. If the company is in breach with any covenants on the balance sheet date, and a waiver has not been approved before or on the balance sheet date with 12 months duration or more after the balance sheet date, the loan is classified as current even if expected maturity is longer than 12 months after the balance sheet date. If the breach which results in any reclassification is related to a loan with cross-default terms in the loan agreement, all loans with the same cross-default terms are reclassified.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or when the contractual obligation expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, the exchange or modification is treated as the de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of comprehensive income as a gain or loss under financial items. Transaction costs incurred during this process are treated as a cost of the settlement of the old debt and included in the gain or loss calculation.

Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

## 1.16 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they incur.

## 1.17 Current and deferred income tax

The tax expense for the period comprises current tax, tax impact from refund of exploration expenses and 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, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets, and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using nominal tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income 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 income taxes assets and liabilities relate to income taxes levied by the same taxation authority where there is an intention to settle the balances on a net basis.

Companies engaged in petroleum production and pipeline transportation on the Norwegian continental shelf are subject to a special petroleum tax on profits derived from these activities. The special petroleum tax is currently levied at 51 per cent (from 2016: 53 per cent). The special tax is applied to relevant income in addition to the standard 27 (from 2016: 25 per cent) per cent income tax, resulting in a 78 per cent marginal tax rate on income subject to petroleum tax. The standard income tax rate was changed from 28 per cent from 1 January 2014, and will from 1 January 2016 change to 25 per cent. The special petroleum tax rate was changed from 50 per cent from 1 January 2014, and will from 1 January 2016 change to 53 per cent. As of 31 December 2015, the deferred tax and deferred tax an asset relating to onshore activity in Norway was calculated with a tax rate of 25 per cent.

The basis for computing the special petroleum tax is the same as for income subject to ordinary income tax, except that onshore losses are not deductible against the special petroleum tax, and a tax-free allowance, or uplift, is granted at 5.5 per cent per year. The uplift is computed on the basis of the original capitalised cost of offshore production installations. The uplift may be deducted from taxable income for a period of four years, starting in the year in which the capital expenditures are incurred. Uplift benefit is recorded when the deduction is included in the current year tax return and impacts taxes payable. Unused uplift may be carried forward indefinitely. In accordance with the Norwegian Petroleum Taxation Act, sale of oil is taxed according to norm price. In the financial statements, the difference between norm price and actual obtained price are treated as a permanent difference. Losses carry forward are calculated with a fixed interest rate per year. For 2014, this interest rate is 1.3 per cent.

Interest expenses on interest-bearing debts are distributed between onshore and offshore activities. The tax allowance for the offshore debt interests are calculated as interest expense multiplied by 50 per cent of the ratio between the tax value of the offshore asset and average interest-bearing debt. The remaining net financial expenses are allocated to onshore. Net finance costs onshore can be transferred to the continental shelf (27 per cent), ref. the Norwegian Petroleum Taxation Act §3d. If interest expense is to related parties and net interest expense exceeds NOK 5 million, they can not be deducted for the amount that exceeds 30 per cent of ordinary income, adjusted for interest and tax depreciation. This rule applies from 2014, but the companies covered by the Norwegian Petroleum Taxation Act § 3 d are as of today exempt. The interest limitation rule will have limited impact on the company.

The Norwegian Petroleum Taxation Act also regulates the access to demand payment of the tax value of losses that occur from exploration activity on the Norwegian Continental Shelf. For fiscal losses related to exploration activity on the Norwegian continental shelf, the company applies for a refund of the tax amount for such a loss. The receivable that then occurs is recognised as short term claim for the current assets, under the line "Tax receivable". If a business liable for special tax is discontinued, and a loss has not been covered, the Company may claim payment from the Norwegian government of the tax value of its uncovered losses, ref. the Norwegian Petroleum Taxation Act §3c. The tax refund will be determined by the authorities, and will be received at the end of the year following the year of discontinuance of petroleum activity in the company.

## 1.18 Employee benefit

### a) Defined contribution plan

For the defined contribution plan, the company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

### b) Bonus plans

The company recognises a liability and an expense for bonuses based on an estimate that takes into consideration the performance of the company compared to board approved performance objectives for the period. The company recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

## 1.19 Share-based payments

Noreco Norway's ultimate parent company, Norwegian Energy Company ASA, operates a number of equity-settled, share-based compensation plans, under which Noreco Norway receives services from employees as consideration for equity instruments (options) of the parent company. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

Fair value:

- including any market performance conditions
- excludes the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period)

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period (which is the period over which all of the specified vesting conditions are to be satisfied).

At the end of each reporting period, the company revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When the options are exercised, the parent company issues new shares.

The social security contributions payable in connection with the grant of the share options is considered an integral part of the grant itself, and the charge will be treated as a cash-settled transaction. During 2015 the options program was discontinued in Noreco Norway due to the possible deal with Djerv. All remaining options for the employees in Noreco Norway were cancelled and the remaining cost booked in Q4 2015.

## 1.20 Provisions

Provisions are recognised when the company has a present obligation (legal or constructive) arising from a past event, and it is probable (more likely than not) that it will result in an outflow from the entity of resources embodying economic benefits, and that a reliable estimate can be made of the amount of the obligation.

Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

### 1.20.1 Asset retirement obligations

Provisions reflect the estimated cost of decommissioning and removal of wells and production facilities used for the production of hydrocarbons. Asset retirement obligations are measured at net present value of the anticipated future cost (estimated based on current day costs inflated). The liability is calculated on the basis of current removal requirements and is discounted to present value using a risk-free rate adjusted for credit risk. Liabilities are recognised when they arise and are adjusted continually in accordance with changes in requirements, price levels etc. When a decommissioning liability is recognised or the estimate changes, a corresponding amount is recorded to increase or decrease the related asset and is depreciated in line with the asset. Increase in the provision as a result of the time value of money is recognised in the income statement as a financial expense.

## 1.21 Contingent liabilities and assets

Contingent liabilities are defined as:

- possible obligations that arise from past events, whose existence depends on uncertain future events.
- present obligations which have not been recognised because it is not probable that they will result in a payment.
- the amount of the obligation cannot be measured with sufficient reliability.

Specific mention of material contingent liabilities is disclosed, with the exception of contingent liabilities where the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognised in the financial statements, but are disclosed if there is a certain probability that a benefit will accrue to the company.

## 1.22 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and added taxes. The company recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the company's activities, as described below.

Revenue from the production of oil, gas and NGL (hydrocarbons) is recognised depending on the company's share of production in the separate licences the company is part of, independently of whether the produced oil and gas has been sold (the entitlement method). Over-/under lifting of hydrocarbons as a consequence of the entitlement method is valued to estimated sale value minus estimated sales costs on the reporting date. Over-/under lifting occurs when the company has lifted and sold more or less hydrocarbons from a producing field than what the company is entitled to at the lift time. See Note 1.12 for description of accounting for over-/under lifting of hydrocarbons in the balance sheet.

## 1.23 Production cost

Production costs are costs that are directly attached to production of hydrocarbons, e.g. cost for operating and maintaining production facilities and installations. Costs mainly consist of man-hours, insurance, processing costs, environmental fees, transport costs etc.

## 1.24 Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables is recognised using the original effective interest rate.

## 1.25 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

## 1.26 Statement of cash flow

The statement of cash flow is prepared according to the indirect method. See Note 1.11 for the definition of “Cash and cash equivalents”.

## 1.27 Discontinued operations

A discontinued operation is a component of the company's business, the operation and cash flows of which can be clearly distinguished from the rest of the company and which:

- Represents a major line of business or geographical area of operations
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographic area of operations

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale. Comparative statement of profit or loss and OCI is re-presented as if the operation had been discontinued from the start of the comparative year.

Since the new strategy for Noreco has been implemented by Noreco effectively ceasing to be an E&P company, by selling, relinquishing, termination or forfeiture all its E&P activities, including its E&P staff, the geographical area of its E&P operation in “The North Sea” is classified as a discontinued operation.



## 2 Fair value estimation

The company has certain financial instruments carried at fair value. The different levels have been defined as follows:

### **Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities**

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the company is the current bid price.

### **Level 2: Inputs other than quoted prices included within level 1 that are observable for the assets or liability, either directly or indirectly**

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specified valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments;
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves;
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value;

### **Level 3: Inputs for other assets or liabilities that are not based on observable market data**

Other techniques, such as discounted cash flow analysis, are used to determine fair value for the financial instruments included in this level. See Note 14 for fair value hierarchy and further information.

## 3 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. This also includes the evaluation as held for sale and discontinued operations. For more information please refer to note 5.

### 3.1 Critical accounting estimates and assumptions

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

#### **a) Estimated recoverable amount on intangible assets**

The company's intangible assets with an indefinite lifespan will be subject to annual impairment testing. The company's activities are largely affected by changes in hydrocarbon prices and changes in currency rates for USD. A decline in oil price will affect the company's cash flow significantly. Expectations for future oil price are also an important factor when assessments are made regarding whether discoveries are financially viable. Further, the oil price also affects the company's exploration activity.

#### **b) Estimated recoverable amount on property, plant and equipment**

The company performs impairment testing on property, plant and equipment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Recoverable amount from cash generating units are determined through calculations of value-in-use. These calculations require the use of estimates.

#### **c) Estimated reserves and resources – accounting impact**

Proven and probable reserves are used to calculate production volumes related to amortisation. Reserve estimates are also used for testing of licence-related assets for write down. Changes to reserve estimates can, for instance, be caused by changes to price and cost estimates. Changes in production profile can occur as a result of new information about the reservoir. Future changes in proven and probable oil and gas reserves can have a significant impact on amortisation, timing of decommissioning, including testing licence-related assets for write down. This can have a significant negative or positive impact on the operating result as a consequence of increased or reduced amortisation, or reversal of previously recognised write downs. As of year end the company has seized being an E&P company, and will in 2016 claim tax positions.

#### **d) Estimated value of financial assets**

For every reporting date, an assessment is made on whether objective evidence is present that financial assets or groups of financial assets should be written down.

#### **e) Income tax**

All figures reported in the income statement and balance sheet are based on the company's tax calculations, and should be regarded as estimates until the tax for the year has been settled. Norwegian tax authorities can be of a different opinion than the company with regards to what constitutes exploration cost and continental shelf deficiency in accordance with the Petroleum Taxation Act.

#### **f) Asset retirement obligation**

Production of oil and gas is subject to statutory requirements relating to decommissioning and removal obligation once production has ceased. Provisions to cover these future decommissioning and removal expenditures must be recognised at the time the statutory requirement arises. The costs will often incur some time in the future, and there is significant uncertainty attached to the scale and complexity of the decommissioning and removal involved. Estimated future costs (estimated based on current costs inflated) are based on known decommissioning and removal technology, expected future price levels, and the expected future decommissioning and removal date, discounted to net present value using a risk-free rate adjusted for credit risk. Changes in one or more of these factors could result in major changes in the decommissioning and removal liabilities.

#### **g) Measurement of bonds**

On every reporting date, due to the classification, bond-loans need to be measured at fair value. Initially borrowings are recognised at fair value. As of year end, due to the limited number of trades in NOR06 during December, valuation techniques were used in order to estimate the fair value of the bond. Considerable judgment has been applied in estimating the fair value.

The valuation technique evaluates and incorporates all information published on the stock exchange. On 21 December Noreco announced that Noreco Norway had entered into a SPA with Djerv Energi AS and entered into a SPA for Enoch. The applied valuation technique is based on a residual approach in which total booked assets equals the total liabilities and equity is residually set at zero.

#### **h) Assessment and classification as discontinued operations**

The company has during 2015 sold, relinquished, terminated or forfeited all of its E&P activities, including its E&P staff. The company has used considerable judgement in determining, and presenting its oil and gas business as discontinuing.

## **3.2 Critical judgements in applying the entity's accounting policies**

#### **a) Assessment of progress and possible development alternatives for the company's non-developed assets.**

When performing impairment tests of intangible assets, progress is assessed in accordance with the policy stated in Note 1.9. This determination requires judgement. The company's intention and plans are stated as basis, so far as there is no information indicating that the majority of partners in the licences will not be able to support the company's intentions and plans.

#### **b) Impairment testing of financial assets**

The company follows the guidance of IAS 39 to determine impairment of receivables recognised in accordance with amortised cost. This determination requires significant judgement.

#### **c) Method for valuation of intangible assets**

In relation to impairment testing of intangible assets, different valuation methods, adjusted to the available information available for the different assets, are used. A significant degree of judgement is used to determine the appropriate method, which is dependant on maturity, geographical location, available budgets, taxation regulations etc. Changes in methods will in certain cases have a significant impact on the valuation used as basis for the Company's recorded values.

#### **d) Resource and reserve estimates**

Estimates of oil and gas reserves are prepared by internal experts in line with industry standards. The estimates are based both on the company's judgement assessments and information from the operators. In addition, the most significant volumes are verified by an independent third party. Proven and probable oil and gas reserves include the estimated amounts of crude oil, natural gas and condensates that geological and technical data reasonably determine to be extractable from known reservoirs and under existing financial and operational conditions per the date the estimate is prepared.

## **4 Implementation effects – first time adoption of IFRS**

From 1 January 2015 Noreco Norway AS is applying International Financial Reporting Standards as adopted by the EU (IFRS). Consequently, the opening balance as of 1 January 2014 has been restated to reflect all effects of the IFRS implementation. The effects of the IFRS implementation presented below are prepared based on the standards and interpretations that will apply for 2015.

Noreco Norway AS has previously applied Norwegian Generally Accepted Accounting Principles (NGAAP). However, the relevant accounting principles, including measurement and recognition, have also been applicable according to IFRS. Thus, no implementation effects have been identified in connection with the first time adoption of IFRS. Neither will the first time adoption of IFRS result in changes to the classification in the income statement and the statement of financial position including key figures.

## 5 Discontinued operations

In October 2014, the Noreco initiated a comprehensive financial restructuring due to a material decrease in the company's debt servicing ability. Noreco initiated during the winter a financial restructuring process and a restructuring proposal was presented in February 2015. The restructuring proposal entailed that the Noreco Group would be converting NOK 1 979 million of bond debt to equity with NOK 1 218 million of bond debt remaining on amended terms, including amended maturities, with possible payment-in-kind interest and no fixed amortizations except final maturity in three years, but with "cash sweep" if cash should become available. Noreco Norway took over the NOR06 bond loan at a principal of NOK 618 million. The restructuring proposal was approved in March 2015, and the Noreco Group has since focused on implementing a new strategy as a consequence.

The new strategy is to repay the bonds within three years, with part payment whenever the cash flow allows it, and secure a return of investment to the shareholder. During 2015 the company has implemented the plan by ceasing to be an E&P company, specifically by selling its share in the oil producing licenses Oselvar and Enoch to CapeOmega (The Oselvar sale was completed in Q4; the Enoch sale is at year end pending government approval and is presented as held for sale) and the entire E&P operation in Norway (license shares, operatorships, staff contracts and other contracts related to the operation) to Djerv Energi AS. The sale to Djerv Energi AS is at year end pending government approval and is presented as held for sale. Consequently during 2015 Noreco has sold, relinquished, terminated or forfeited all its E&P activities, including its E&P staff. According to IFRS 5 the company is required to present its E&P business as discontinued to ensure that the accounts reflect its current operation.

(NOK million)	2015	2014
Revenue	57	101
Production expenses	(3)	(34)
Exploration and evaluation expenses <sup>(1)</sup>	(374)	(221)
Payroll expenses <sup>(2)</sup>	(45)	(46)
Other operating expenses	(30)	(50)
Other (losses) / gains <sup>(3)</sup>	(78)	0
<b>Total operating expenses</b>	<b>(529)</b>	<b>(350)</b>
<b>Operating result before depreciation and write-downs (EBITDA)</b>	<b>(472)</b>	<b>(249)</b>
Depreciation		(15)
Write-downs and reversals of write-downs	(3)	(388)
<b>Net operating result (EBIT)</b>	<b>(476)</b>	<b>(652)</b>
Financial income	6	7
Financial expenses	(42)	(47)
<b>Net financial items</b>	<b>(36)</b>	<b>(40)</b>
<b>Result before tax (EBT)</b>	<b>(511)</b>	<b>(691)</b>
Income tax benefit / (expense)	220	473
<b>Net result for the period</b>	<b>(292)</b>	<b>(218)</b>
Average number of employees, discontinued operations	28	41

- 1) The Djerv deal has the consequence that Noreco Norway no longer has any exploration assets. The book value of the company's exploration assets was NOK 253 million prior to the Djerv deal. The impairment of the book value has been treated as a exploration cost in 2015.
- 2) Included in the payroll expenses is the remaining expense on the employee option programme for the personnel employed in Noreco Norway AS, NOK 5 million.
- 3) Included in Gain/Loss is the net gain on the Oselvar deal and the provisions made as a consequence of the Djerv-deal and the Enoch deal. The Djerv deal results in establishment of a provision for the negative consideration of NOK 74 million. The Enoch deal results in establishment of an additional provision for the consideration of NOK 4 million.

**Cash flow from (used) in discontinued operation**

(NOK million)	2015	2014
Net cash used in operating activities	72	318
Net cash from investing activities	102	(318)
Net cash from financing activities		
Net cash flow for the period	174	0

**Effect of disposal on the financial position of the Group**

(NOK million)	2015
License and capitalised exploration expenses	259
Production facilities / Machinery & Equipment	0
Trade receivables and other current assets	32
Provisions for other liabilities and charges	(73)
Trade payables and other current liabilities	(54)
Net assets and liabilities	164
Consideration received, satisfied in cash	173
Cash and cash equivalents disposed of	
Net cash inflow	173

Though the Djerv deal – the sale of the Norwegian E&P activities - did not materialize due to lack of support from the bondholders (please refer to Note 25) another SPA for the sale of these activities to Det Nor was signed in 2016. Correspondingly it is classified as held for sale as of year end.

## 6 Financial income and expenses

**Financial income**

(NOK million)	2015	2014
Interest income	8	6
Interest income from other group companies	1	4
Change in fair value of bond debt on extinguishment	278	-
Change in fair value of bond debt <sup>(1)</sup>	50	-
<b>Total financial income continued operations</b>	<b>337</b>	<b>10</b>
<b>Total financial income discontinued operations</b>	<b>6</b>	<b>7</b>
<b>Total financial income</b>	<b>343</b>	<b>18</b>

1) See note 12

**Financial expenses**

(NOK million)	2015	2014
Interest expense from bond loans	(33)	-
Interest expense to other group companies	(11)	(46)
Change in fair value of bond debt <sup>(1)</sup>	(218)	-
Other financial expenses	-	0
<b>Total financial expenses continued operations</b>	<b>(262)</b>	<b>(46)</b>
<b>Total financial expenses discontinued operations</b>	<b>(42)</b>	<b>(47)</b>
<b>Total financial expenses</b>	<b>(304)</b>	<b>(93)</b>
<b>Net financial items continued operations</b>	<b>75</b>	<b>(36)</b>
<b>Net financial items discontinued operations</b>	<b>(36)</b>	<b>(40)</b>
<b>Net financial items</b>	<b>40</b>	<b>(76)</b>

1) See note 12

# 7 Tax

(NOK million)	2015	2014
<b>Tax expenses</b>		
Change in deferred tax	(80)	(168)
Tax refundable	(119)	(315)
Other items		(0)
<b>Tax expenses</b>	<b>(199)</b>	<b>(483)</b>
Result before tax	(436)	(727)
Effective tax percentage	46 %	66 %

  

(NOK million)	2015	2014
Loss before tax	(436)	(727)
Financial items (onshore)	17	76
Permanent differences	120	(0)
Change in temporary differences	(111)	106
Sold deferred taxes	243	-
Non-exploration expenses - offshore	14	142
<b>Basis for exploration tax refund 78%</b>	<b>(152)</b>	<b>(403)</b>
Calculated exploration refund	119	315

  

Reconciliation of effective tax rate	2015	2014
Income (loss) before tax	(436)	(727)
Offshore losses carry forward (27%)	(118)	(196)
Offshore losses carry forward (51%)	(222)	(371)
Total	(340)	(567)
Recognized change deferred tax from previous years	-	-
Utilised uplift	0	(19)
Effect financial items	(25)	31
Permanent differences	169	56
Other items	(3)	16
<b>Tax expense</b>	<b>(199)</b>	<b>(483)</b>
	(199)	(483)

The recognition of deferred tax assets is based on carry loss forward will be paid in cash from government if Noreco is terminating exploration activity in Norway.

Companies engaged in petroleum production on the Norwegian continental shelf are subject to a special petroleum tax on profits derived from these activities. The special petroleum tax is currently levied at 51 per cent (from 2016: 53 per cent). The special tax is applied to relevant income in addition to the standard 27 (from 2016: 25 per cent) per cent income tax, resulting in a 78 per cent marginal tax rate on income subject to petroleum tax. The standard income tax rate was changed from 28 per cent from 1 January 2014, and will from 1 January 2016 change to 25 per cent. The special petroleum tax rate was changed from 50 per cent from 1 January 2014, and will from 1 January 2016 change to 53 per cent. As of 31 December 2015, the deferred tax and deferred tax asset relating to onshore activity in Norway was calculated with a tax rate of 25 per cent

## 8 Intangible non-current assets

(NOK million)	Licence and capitalised exploration expenditures
Acquisition costs 01.01.15	259
Additions	71
Expensed exploration expenditures previously capitalised	(329)
<b>Acquisition costs 31.12.15</b>	<b>-</b>
<b>Accumulated depreciation and write-downs</b>	<b>-</b>
Accumulated depreciation and write-downs 01.01.15	-
<b>Accumulated depreciation and write-downs 31.12.15</b>	<b>-</b>
<b>Book value 31.12.15</b>	<b>-</b>

(NOK million)	Licence and capitalised exploration expenditures
Acquisition costs 01.01.14	148
Additions	267
Expensed exploration expenditures previously capitalised	(156)
<b>Acquisition costs 31.12.14</b>	<b>259</b>
<b>Accumulated depreciation and write-downs</b>	<b>-</b>
Accumulated depreciation and write-downs 01.01.14	-
<b>Accumulated depreciation and write-downs 31.12.14</b>	<b>-</b>
<b>Book value 31.12.14</b>	<b>259</b>

### Overview of writeoffs (Expensed exploration expenditures previously capitalised) 2015

(NOK million)		Write-offs before tax	Income tax benefit/expense	Net write-off after tax
PL492 Gohta	Discontinued operation	(254)	198	(56)
PL616 Haribo	Discontinued operation	(74)	57	(16)
Other	Discontinued operation	(2)	1	(0)
<b>Total write-offs 2015</b>		<b>(329)</b>	<b>257</b>	<b>(72)</b>

### Overview of writeoffs (Expensed exploration expenditures previously capitalised) 2014

(NOK million)		Write-offs before tax	Income tax benefit/expense	Net write-off after tax
PL484 Verdande	Discontinued operation	(158)	123	(35)
Other	Discontinued operation	1	(1)	0
<b>Total write-offs 2014</b>		<b>(156)</b>	<b>122</b>	<b>(34)</b>

### Impairment test of intangible assets

In accordance with the company's accounting policies, an impairment test for the company's capitalised exploration expenses has been carried out at 31 December 2015. The impairment test is carried out by the company and are based on expected cash flows from relevant reserves and resources (value-in-use).

### Result from impairment test of Licence and capitalised exploration expenditures on 31 December 2015

During the year, a number of impairment tests of the intangible assets have been performed. The Djerv deal has the consequence that Noreco Norway AS no longer has any exploration licenses left. The book value of its licenses was consequently impaired fully since asset classified as held for sale and shall be recorded at the lower of carrying amount and fair value less cost to sell. The expensed book value is presented in the income statement as part of discontinued operations as an exploration expense, ref. Note 5.

**The impairment calculations in 2014 were based on the following assumptions:**

	<b>2014</b>
Discount rate (after tax)	10.0 per cent
Inflation	2.0 per cent
Cash flow	After tax
Prognosis period <sup>(1)</sup>	Estimated lifetime of the oil/gas field or expected ownership term if shorter
Reserves/resources <sup>(2)</sup>	Internal estimated resources and reserves as of 31 December 2014
Oil price <sup>(3)</sup>	Forward curve for oil price for the period 2015-2017. From 2018 the oil price is adjusted for inflation.
Currency rates	Average forward-rate for the period 2015-2018. From 2019 the average rate for 2018 is used.

- 1) In estimating the recoverable amount for fields, an estimation period corresponding to the lifetime of the individual field is used, or the expected ownership period if this is shorter. This is because the production profiles and investment costs significantly affect the value of future cash flows and can be reasonably estimated over the total lifetime of the oil fields.
- 2) As a basic rule, the Company's resource estimates are applied for impairment testing. For the resources applied for impairment testing of intangible assets, the Company performs an assessment to identify any deviations from resource estimates from the partners in the licences. If any deviations are identified, an estimate which place greater emphasis on information from other partners and other external sources are applied.
- 3) Forward curve for Brent blend from accessible market data is applied for forecasting of expected revenue from sale of oil. Gas, NGL, and condensate prices are derived using the oil price based on historical correlation. Revenue for each field is adjusted for the quality of the product. For some fields, Noreco has entered into fixed price agreements, and these prices are applied for those fields when calculating the future cash flows.

## 9 Property, plant and equipment

**Property, plant and equipment as at 31 December 2015**

<b>(NOK million)</b>	<b>Production facilities</b>	<b>Machinery and equipment</b>	<b>Total</b>
Acquisition costs 01.01.15	1 211	0	1 211
Additions		1	1
Revaluation abandonment assets	3		3
Disposals	(1 135)		(1 135)
<b>Acquisition costs 31.12.15</b>	<b>78</b>	<b>1</b>	<b>78</b>
<b>Accumulated depreciation and write-downs</b>			
Accumulated depreciation and write-downs 01.01.15	(1 211)		(1 211)
Depreciation			
Disposals	1 135		1 135
Write-downs	(3)	(1)	(3)
<b>Accumulated depreciation and write-downs 31.12.15</b>	<b>(78)</b>	<b>(1)</b>	<b>(78)</b>
<b>Book value 31.12.15</b>	<b>-</b>	<b>-</b>	<b>-</b>
Economic life	N/A	3-5 years	
Depreciation plan	UoP	Straight line	

**Property, plant and equipment as at 31 December 2014**

<b>(NOK million)</b>	<b>Production facilities</b>	<b>Machinery and equipment</b>	<b>Total</b>
Acquisition costs 01.01.14	1 160		1 160
Additions	0	0	0
Revaluation abandonment assets	51		51
Disposals			
Reclassified to assets held for sale (see note 17)			
<b>Acquisition costs 31.12.14</b>	<b>1 211</b>	<b>0</b>	<b>1 211</b>
<b>Accumulated depreciation and write-downs</b>			
Accumulated depreciation and write-downs 01.01.14	(808)		(808)
Depreciation	(15)		(15)
Disposals			
Write-downs	(388)		(388)
Reclassified to assets held for sale (see note 17)			
<b>Accumulated depreciation and write-downs 31.12.14</b>	<b>(1 211)</b>		<b>(1 211)</b>
<b>Book value 31.12.14</b>		<b>0</b>	<b>0</b>
Economic life	N/A	3-5 years	
Depreciation plan	UoP	Straight line	

### Impairment test of property, plant and equipment

The impairment tests are carried out by the company and are based on expected cash flows from the company's producing fields (Value-in-use). As of year end the company only had an ownership in the norwegian oilfield PL048D Enoch which was classified as held for sale and as discontinued operation. The divestment was completed in Q1 2016.

### Result from impairment test on 31 December 2015

At the end of the quarter a reclassification to held for sale is performed for intangible assets included in the deals described in note 5 and 17. An impairment charge is recorded if the recorded amount surpasses the fair value less cost to sell, since asset and liabilities classified as held for sale shall be recorded at the lower of carrying amount and fair value less cost to sell.

### Overview of write-downs 2015

(NOK million)		Write-downs before tax	Income tax benefit/expense	Net write-downs after tax
PL048D Enoch	Discontinued operation	(3)	2	(1)
Other	Discontinued operation	(1)	1	(0)
<b>Total write-downs 2015</b>		<b>(3)</b>	<b>3</b>	<b>(1)</b>

### Overview of write-downs 2014 <sup>(1)</sup>

(NOK million)		Write-downs before tax	Income tax benefit/expense	Net write-downs after tax
Oselvar	Discontinued operation	(396)	278	(117)
Enoch	Discontinued operation	(21)	17	(5)
<b>Total write-downs 2014</b>		<b>(417)</b>	<b>295</b>	<b>(122)</b>

1) for more information regarding the main assumptions used in the 2014 impairment test, please refer to annual statement for 2014 for Noreco Group.

### Sensitivities related to the impairment test of assets which are carried at recoverable amount

The company's only producing asset as of 31.12.2015, PL048D Enoch, was classified as Held-For-Sale. The deal was completed in Q1 2016. The company no longer owns any producing assets.

## 10 Trade receivables and other current assets

### Trade receivables and other current assets

(NOK million)	31.12.2015	31.12.2014
Trade receivables	2	15
Receivables from operators relating to joint venture licences	1	10
Underlift of oil/NGL	0	2
Prepayments		3
Other receivables	0	8
<b>Total trade receivables and other current receivables</b>	<b>3</b>	<b>38</b>

Current receivables in currency (NOK million):	31.12.2015	31.12.2014
NOK	2	24
DKK		
USD	1	13
GBP		1
EUR		0
<b>Total</b>	<b>3</b>	<b>38</b>

### Ageing analysis of trade receivables and other short term receivables on 31 December 2015

(NOK million)	Total	Not past due	Past due			
			> 30 days	30-60 days	61-90 days	> 90 days
Tax receivables						
Trade receivables	2	2	0			
Receivables from operators relating to joint venture licences	1	1				
Underlift of oil/NGL						
Prepayments						
Other receivables	0	0				
<b>Total</b>	<b>3</b>	<b>3</b>	<b>0</b>			



#### Ageing analysis of trade receivables and other short term receivables on 31 December 2014

(NOK million)	Total	Not past due	Past due			
			> 30 days	30-60 days	61-90 days	> 90 days
Tax receivables						
Trade receivables	15	15				
Receivables from operators relating to joint venture licences	10	10				
Underlift of oil/NGL	2	2				
Prepayments	3	3				
Other receivables	8	8				
<b>Total</b>	<b>38</b>	<b>38</b>				

## 11 Restricted cash, bank deposits, cash and cash equivalents

#### Restricted cash, bank deposits, cash and cash equivalents

(NOK million)	31.12.2015	31.12.2014
<b>Non-current assets</b>		
Other restricted cash and bank deposits	2	2
<b>Current assets</b>		
Other restricted cash and bank deposits (Pledged account for bondholders, withholding tax etc.)	177	32
<b>Total restricted cash</b>	<b>180</b>	<b>35</b>
Unrestricted cash, bank deposits and cash equivalents	100	17
<b>Total bank deposits</b>	<b>280</b>	<b>51</b>

#### Cash held in different currency

(NOK million)	2015		2014	
	Amount in currency	NOK	Amount in currency	NOK
NOK	269	269	42	42
DKK				
USD	1	10	1	10
EUR				
GBP				
<b>Total</b>		<b>280</b>		<b>51</b>

There are no differences between fair value and carrying amount for cash at bank.

#### Overdraft facilities

##### As at 31 December 2015

(NOK million)	Facility amount in currency	NOK	Used	Unused	Available
Exploration loan facility <sup>(1)</sup>	400	400	110		
<b>Total</b>		<b>400</b>	<b>110</b>		
Unrestricted cash and cash equivalents					100
<b>Accessible liquidity at 31.12.15</b>					<b>100</b>

1) The basis for utilisation of the exploration loan facility is 70 percent of exploration losses which are entitled to 78 percent tax refund from the Norwegian tax authorities.

The exploration loan facility amount has after year end been reduced to the actual drawn down amount.

##### As at 31 December 2014

(NOK million)	Facility amount in currency	NOK	Used	Unused	Available
Exploration loan facility	850	850	284	566	
<b>Total</b>		<b>850</b>	<b>284</b>	<b>566</b>	
Unrestricted cash and cash equivalents					17
<b>Accessible liquidity at 31.12.14</b>					<b>17</b>

# 12 Borrowings

## 12.1 Principal amounts and book values

Non-current debt (NOK million)	31.12.2015		31.12.2014	
	Principal amount	Book value	Principal amount	Book value
NOR06 bond loan, amended and restated	477	367		
<b>Total non-current bonds</b>	<b>477</b>	<b>367</b>		
Exploration loan	(0)	(0)		
<b>Total non-current other interest bearing debt</b>	<b>(0)</b>	<b>(0)</b>		
<b>Current debt</b>				
(NOK million)	31.12.2015		31.12.2014	
	Principal amount	Book value	Principal amount	Book value
NOR06 bond loan, amended and restated <sup>(1)</sup>	160	160		
<b>Total current bonds</b>	<b>160</b>	<b>160</b>		
Exploration loan	110	110	284	284
Debt to group companies			639	639
<b>Total current other interest bearing debt</b>	<b>110</b>	<b>110</b>	<b>923</b>	<b>923</b>
<b>Total borrowings</b>	<b>748</b>	<b>637</b>	<b>923</b>	<b>923</b>

1) In second quarter of 2015 an agreement between Noreco and CapeOmega was reached regarding the sale of Norecos 15% interest in Oselvar (PL274 and PL274 CS) for a total consideration of NOK 201 million. The transaction was approved by the Board and signed 30 June, and announced on the stock exchange 1 July. The sale received approval from the Norwegian authorities in Q4, and the a repayment on NOR06 of approximately NOK 160 million is expected to take place in Q1 2016. The amount of expected repayment has been classified as a current liability.

Borrowings are recognised initially at fair value. As of year end, due to the limited number of trades in NOR06 during December, valuation techniques were used in order to estimate the fair value of the bond. The valuation technique evaluates and incorporates all information published on the stock exchange. 21 December Noreco announced that Noreco Norway had entered into a SPA with Djerv Energi AS and entered into a SPA for Enoch (please refer to note 5 and 17). The applied valuation technique is based on publicly available information on these transactions and reasonably estimated impact on the company's financial position, the fair value of the bond loan was determined based on expected recoverability on the bond loan. Applying this valuation technique the estimated fair value of the NOR06 bonds were calculated at 82.7%.

## 12.2 Financial restructuring

A financial restructuring of the Noreco group was completed in the first quarter 2015. For more information see annual financial statement for Noreco Group. For Noreco Norway, the restructuring had the following implications:

- Bond loan NOR06 changed borrower from Norwegian Energy Company ASA to Noreco Norway AS without any recourse to the parent company or other parts of the group. Noreco opted to measure the bond subsequently using the fair value option.
- Noreco Norway AS received an increased share capital of NOK 103.5 million, whereof NOK 73 million in cash and NOK 30.5 million by conversion of intercompany debt to equity.
- Nordic Trustee, on behalf of the bondholders of NOR06, was given an option to purchase all outstanding shares of and any intercompany claims on Noreco Norway AS for NOK 1. If the purchase option is exercised, the Noreco group may cancel the option for a consideration of NOK 30 million, or by exercising the call option on the bond loan.

## 12.3 Assets pledged as security for interest bearing debt

Specification of assets pledged as securities:

(NOK million)	2015	2014
<b>Collateralised debt (net book value)</b>		
Bond loans (current and non current part, ref. note 12. <sup>(1)</sup> )	527	
Exploration loan (ref. note 12. <sup>(1)</sup> )	110	284
Total collateralised debt	637	284
<b>Capitalised value of assets pledged as securities</b>		
Licence and capitalised exploration expenditures	0	259
Property, plant and equipment	-0	0
Tax receivable	469	828
Cash at bank	280	51
Total capitalised value	749	1 138

Specification of assets pledged as securities per bond/loan:

(NOK million)	2015	2014
<b>Bond loan NOR06 <sup>(1)</sup></b>		
Deferred tax assets	350	
Cash at bank	280	
Total	630	
<b>Exploration loan <sup>(2)</sup></b>		
Licence and capitalised exploration expenditures	0	259
Tax receivable	119	315
Total	119	573

- 1) The bond loan NOR06 is secured with pledge in licences owned by the company, project proceeds relating to the Oselvar licence, insurance proceeds directly deriving from any damage to equipment and/or property in respect of the Oselvar licence and Norwegian law on-demand guarantees issued by Noreco Norway AS.
- 2) The exploration loan is secured with pledge in the tax refund balance related to Norwegian exploration activity and all Norwegian exploration licences.

## 12.4 Details on borrowings and payment structure

The NOR06 bond was entered into in March 2015 with a face value of NOK 618 million (principal amount including accrued, but unpaid interest and default interest until 5 March 2015 (assumed settlement date) and a final maturity date in March 2018 (3 years after the original issue). The bond holds a fixed interest rate of 6.5 % with semi annually payments only if available cash on the proceeds accounts (and subject always to the company having a lawful level of equity), otherwise payment-in-kind (PIK). Covenants relating to NOR06 are in line with what is considered customary in the Norwegian high yield bond market.

**Payment structure loans after refinancing (NOK million):**

Year	Amended and restated NOR06
2015	0
2016	0
2017	0
2018	618
Total	618

**Interest payments after refinancing (NOK million):**

Year	Amended and restated NOR06
Interest rate	6.50 %
2015	20
2016	40
2017	40
2018	20
Total	120

# 13 Trade payables and other current liabilities

(NOK million)	31.12.15	31.12.14
Trade payable	0	5
Liabilities to operators relating to joint venture licences	2	12
Overlift of oil/NGL		4
Accrued interest	13	1
Salary accruals		11
Public duties payable	(0)	5
Other current liabilities	3	16
<b>Total other current liabilities</b>	<b>19</b>	<b>55</b>

Trade and other payables held in currency (NOK million)	31.12.2015	31.12.2014
NOK	19	46
DKK		3
USD		7
GBP	0	0
EUR		
<b>Total</b>	<b>19</b>	<b>55</b>

## Ageing analysis of trade payables and other current liabilities on 31 December 2015

(NOK million)	Total	Not past due	Past due			
			> 30 days	30-60 days	61-90 days	> 90 days
Trade payable	0	0	(0)	(0)		
Liabilities to operators relating to joint venture licences	2	2				
Overlift of oil/NGL						
Accrued interest	13	13				
Salary accruals						
Public duties payable						
Other current liabilities	3	3				
<b>Total</b>	<b>19</b>	<b>19</b>	<b>(0)</b>	<b>(0)</b>		

## Ageing analysis of trade payables and other current liabilities on 31 December 2014

(NOK million)	Total	Not past due	Past due			
			> 30 days	30-60 days	61-90 days	> 90 days
Trade payable	5	5				
Liabilities to operators relating to joint venture licences	12	12				
Overlift of oil/NGL	4	4				
Accrued interest	1	1				
Salary accruals	11	11				
Public duties payable	5	5				
Other current liabilities	16	16				
<b>Total</b>	<b>55</b>	<b>55</b>				

# 14 Financial instruments

## 14.1 Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - Inputs for the asset or liability that are not based on observable market data.

On 31.12.2015

(NOK million)	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Financial assets at fair value through profit or loss				
- Trading derivatives				
- Underlift of oil		0		0
<b>Total assets</b>		<b>0</b>		<b>0</b>
<b>Liabilities</b>				
Financial liabilities at fair value through profit or loss				
- Interest rate swap agreements and trading derivatives				
- Overlift of oil				
- Bond loans			527	527
<b>Total liabilities</b>			<b>527</b>	<b>527</b>

As of year end, due to the limited number of trades in NOR06 during December, valuation techniques were used in order to estimate the fair value of the bond. The valuation technique evaluates and incorporates all information published on the stock exchange. 21 December Noreco announced that Noreco Norway had entered into a SPA with Djerv Energi AS and entered into a SPA for Enoch (please refer to note 5 and 17). The applied valuation technique is based on publicly available information on these transactions and reasonably estimated impact on the company's financial position, the fair value of the bond loan was determined based on expected recoverability on the bond loan. Applying this valuation technique the estimated fair value of the NOR06 bonds were calculated at 82.7%.

On 31.12.2014

(NOK million)	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Financial assets at fair value through profit or loss				
- Trading derivatives				
- Underlift of oil			2	2
<b>Total assets</b>			<b>2</b>	<b>2</b>
<b>Liabilities</b>				
Financial liabilities at fair value through profit or loss				
- Interest rate swap agreements and trading derivatives				
- Overlift of oil			4	4
<b>Total liabilities</b>			<b>4</b>	<b>4</b>

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to determine the fair value for a financial instrument are observable, the instrument is included in level 2.

The fair value of over-/underlift of hydrocarbons are based on the spot oil price at closing date. Fair value of bond loans are based on executed trades at applicable market places and if appropriate, supplemented by other market based information such as broker quotes and subsequent trades adjusted for any significant time differences.

## 14.2 Financial instruments by category

On 31.12.2015

(NOK million)	Loans and receivables	Assets at fair value through profit or loss	Total
<b>Assets</b>			
Derivatives			
Trade receivables and other current assets	3	0	3
Restricted cash	180		180
Bank deposits, cash and cash equivalents	100		100
<b>Total</b>	<b>283</b>	<b>0</b>	<b>283</b>

(NOK million)	Financial liabilities at amortised cost	Liabilities at fair value through profit or loss	Total
<b>Liabilities</b>			
Bond loans		527	527
Other interest bearing debt	110		110
Derivatives			
Debt to group companies Ringfence 1			
Trade payables and other current liabilities	19		19
<b>Total</b>	<b>129</b>	<b>527</b>	<b>656</b>

On 31.12.2014

(NOK million)	Loans and receivables	Assets at fair value through profit or loss	Total
<b>Assets</b>			
Derivatives		-	-
Trade receivables and other current assets	33	2	35
Restricted cash	35		35
Bank deposits, cash and cash equivalents	17		17
<b>Total</b>	<b>85</b>	<b>2</b>	<b>86</b>

(NOK million)	Financial liabilities at amortised cost	Liabilities at fair value through profit or loss	Total
<b>Liabilities</b>			
Bonds	-		-
Other interest bearing debt	284		284
Debt to group companies	639		639
Trade payables and other current liabilities	40	4	44
<b>Total</b>	<b>963</b>	<b>4</b>	<b>967</b>

## 14.3 Financial instruments - Fair values

Set out below is a comparison of the carrying amounts and fair value of financial instruments as on 31 December 2015:

(NOK million)	Carrying amount	Fair value
<b>Financial assets:</b>		
Derivatives		
Trade receivables and other current assets	4	4
Restricted cash	180	180
Bank deposits, cash and cash equivalents	100	100
<b>Total</b>	<b>284</b>	<b>284</b>
<b>Financial liabilities:</b>		
Bonds	527	527
Other interest bearing debt	110	110
Derivatives		
Trade payables and other current liabilities	29	29
<b>Total</b>	<b>667</b>	<b>667</b>

## 15 Asset retirement obligations

(NOK million)	31.12.15	31.12.14
Balance on 1.1.	73	15
Provisions and change of estimates made during the year	3	55
Accretion expense	5	3
Reclassified to liabilities held for sale (see note 23)	(12)	
Reversed provision from disposal of assets	(69)	
<b>Total provision made for asset retirement obligations</b>		<b>73</b>

Provisions made for asset retirement obligations includes the future expected costs (estimated based on current day costs inflated) for close-down and removal of oil equipment and production facilities used in hydrocarbon activities. The estimated future provision is discounted using a risk-free rate adjusted for credit risk of 9 percent. Inflation is assumed to be 2 percent.

## 16 Shares and share capital

(NOK million)	No. of shares	Share Capital
31 December 2014	141 001	1 131
<i>Change in share capital in 2015</i>		
Capital increase on 20 March 2015		73
Capital increase through conversion of debt on 20 March 2015		30
31 December 2015	141 001	1 234

All shares are owned by Norwegain Energy Company ASA

## 17 Post employment benefits

### Defined contribution plan

The company only has defined contribution plans for its employees. Pension costs related to the company's defined contribution plan amounts to NOK 1 million for 2015. For 2014 the corresponding costs were NOK 0 million.

The company is obliged to have occupational pension in accordance with the Norwegian act related to mandatory occupational pension. The company meets the Norwegian requirements for mandatory occupational pension ("obligatorisk tjenestepensjon").

# 18 Assets and liabilities held for sale

## Specification of assets held for sale:

(NOK million)	31.12.15
Property, plant and equipment	
Restricted cash	
Trade receivables and other current assets	12
<b>Total assets held for sale</b>	<b>12</b>

## Specification of liabilities held for sale:

(NOK million)	31.12.15
Asset retirement obligations	(12)
Net book value assets	1
Trade payables and other current liabilities	(96)
<b>Total liabilities held for sale</b>	<b>(107)</b>

As part of the overall restructuring, Noreco initiated strategic initiatives in order to achieve the new strategy of repaying its bonds within three years. One of the strategic initiatives involved selling the 4.36% ownership interest in the Enoch license to CapeOmega. As of year end the sale is pending government approval, and the transaction is classified as held for sale. During fourth quarter Noreco also signed a SPA agreement to transfer the entire E&P operation (license shares, operatorships, staff contracts and other contracts related to the operation) to Djerv Energi AS. The sale to Djerv Energi AS was terminated due to not obtaining bond holder approval. Subsequently another alternative presented itself with the sale to Det Norske, please refer to note 26. The deal with Det Norske is correspondingly disclosed as subsequent event and original accounting based on Djerv transaction retained as of year end 2015. The sale to Djerv Energi AS was at year end pending both bondholder and government approval and is presented as held for sale. Both transactions imply that the assets and liabilities in the deals have accordingly been reclassified as held for sale and impaired since asset classified as held for sale shall be recorded at the lower of carrying amount and fair value less cost to sell.

# 19 Interests in jointly controlled assets

Interest in jointly controlled assets are included in the accounts by the gross method (partly consolidation), based on the ownership.

The Company holds the following licence equities on 31 December:

2015				
Licence	Field	Country	Note <sup>(1)</sup>	Equity
PL006C		Norway	SPA with Det Norske	15.0 %
PL018DS		Norway	SPA with Det Norske	13.3 %
PL048D	Enoch <sup>(**)</sup>	Norway	Divested to CapeOmega in Q1 2016	21.8 %
PL492	Gohta	Norway	SPA with Det Norske	20.0 %
PL519		Norway	Relinquished Q1 2016	20.0 %
PL616		Norway	SPA with Det Norske	20.0 %
PL701 <sup>(*)</sup>		Norway	SPA with Det Norske	40.0 %
PL744 S		Norway	Relinquished Q1 2016	20.0 %
PL748		Norway	SPA with Det Norske	20.0 %
PL755		Norway	Relinquished Q1 2016	20.0 %
PL761 <sup>(*)</sup>		Norway	Relinquished Q1 2016	40.0 %
PL762 <sup>(*)</sup>		Norway	SPA with Det Norske	20.0 %

1) Please refer to note 25, since licenses that was part of the Djerv deal as of 31/12 are included in SPA with Detnor.

\*) The company is the operator

\*\*) The Enoch field located in the licence PL048D is a separate joint venture in which Noreco participates with 4.36 percent equity interest

In connection with the granting of new licences for exploration and production of oil and gas or when a PDO is approved, the participants are obliged to fulfill certain commitments. Such commitments could be to drill a number of wells, conduct seismic surveys or other commitments.



## 20 Contingencies and commitments

### Zidane contingent payment

As part of the disposal of PL435 (the Zidane discovery), Noreco is entitled to a contingent payment when a PDO for the Zidane 2 discovery is approved by authorities. The payment will be linked to the volumes submitted in the PDO. The contingent payment is not recognised in the accounts on 31 December 2015.

### Commitments exploration wells

The company has no committed wells for the period 2016-2018. It is expected that the partnership on PL492 Gohta will propose 2 appraisal wells in the period 2017-2018 and a shared well on Alta in 2017, estimated total cost for Noreco Norway of approximately NOK 192 million pretax. It is expected that the partnership on PL701 will propose 1 exploration well in 2017, estimated total cost for Noreco Norway of NOK approximately NOK 160 million pretax. The company is currently awaiting approval from the authorities on divestments of its partnershare in a number of its licenses, including PL492 Gohta and PL701. Should the approval be granted the new licenseholder will take over any future commitments from the company on these licenses.

Apart from the issues discussed above, the Company is not involved in claims from public authorities, legal claims or arbitrations that could have a significant impact on the Company's financial position or results.

## 21 Operating leases

Annual lease costs related to lease agreements accounted for as operating leases	2015	2014
Office <sup>(1)</sup>	4	18
Other <sup>(2)</sup>		4
<b>Future minimum lease payments under non-cancellable lease agreements</b>	<b>2015</b>	<b>2014</b>
2015	-	7
2016	-	6
2017	-	4
2018	-	4
>2018	-	7
Total	-	28

1) Office includes rent at Badehusgata 37, which is part of the SPA with Djerv. The only other lease in 2016 onwards relate to office equipment.

## 22 Related party transactions

In 2015, Noreco Norway AS had transactions between companies within the Noreco Group. All the transactions have been executed in accordance with transfer pricing regulations. Services are charged between Group companies at an hourly rate which corresponds to similar rates between independent parties.

## 23 Reserves (unaudited)

In 2014 the Group reported oil, gas and NGL reserves according to the guidelines given in the Stock Exchange circular no. 1/2013. The report was included as a separate section in the annual report for the Group in 2014. In 2015, due to the comprehensive financial restructuring caused by a material decrease in the company's debt servicing ability, Noreco Norway is no longer active in the Oil and Gas business. Consequently following the transactions during 2015, when completed, Noreco Norway will effectively no longer be an E&P company and will as such no longer have any reserves.

## 24 Personell expenses and remuneration

### Compensation to key management for 2015

(NOK 1 000)	Remuneration	Bonus earned 2014, paid 2015	(1) Retention bonus for 2014 paid 2015	Pension	(2) Other remuneration	(3) Total compensation	(4) Number of shares	(5) Number of options and bonus shares	(6) Shares purchased in 2015
<b>Senior executives</b>									
Silje Christine Augustson <sup>(9)</sup> Group CEO	397					397			
Tommy Sundt <sup>(7)</sup> CEO	6 897			73	642	7 612			
Svein Arild Killingland CEO	4 213				120	4 333			
Odd Arne Slettebø <sup>(8)</sup> CFO	1 519			65	189	1 773			
Lars Fosvold <sup>(7)</sup> VP, Exploration/general manager Noreco Norway	2 166		300	76	379	2 920	226		
Øyvind Sørbø <sup>(10)</sup> VP, Commercial	1 951		200	75	326	2 551	135		
<b>Total compensation 2015</b>	<b>19 586</b>	<b>0</b>	<b>500</b>	<b>289</b>	<b>1 656</b>	<b>17 143</b>	<b>361</b>	<b>0</b>	<b>0</b>

1) The accrued retention bonus for 2014 was settled in January 2015

2) Other remuneration include compensation for lapse of pension agreement exceeding 12G, telephone, broadband and other minor remunerations

3) All figures stated regarding salary and other compensation based on full year 2015, not only part of the year that person held a position with reporting requirement

4) The number of shares owned by key management is allocated between private shareholding and shareholding through companies controlled by key management. Number of shares owned as of 31 December 2015

5) The employee options program in Noreco Norway was discontinued in Q4 2015. All options in Noreco Norway were subsequently cancelled

6) Figures show net increase in share holding in 2015

7) Tommy Sundt stepped down as CEO 13 October 2015 and was replaced by Silje Christine Augustson as Group-CEO, Lars Fosvold became General manager in Noreco Norway

8) Odd Arne Slettebø stepped down and left the Company in fourth quarter 2015

9) Compensation only includes salary as Group-CEO, as Silje Augustson does not receive any compensation from Noreco Norway

10) Øyvind Sørbø has stepped down and left the Company during first quarter 2016

The Company has not issued any loans or acted as a guarantor for directors or management.

(NOK 1 000)	Director's fees	(1) Total compensation	(2) Number of shares	(3) Number of options and bonus shares	(4) Shares purchased in 2015	Period served on the board
<b>Current Board of directors</b>						
Silje Christine Augustson <sup>(1)(5)</sup> Chair of the Board	-	-				27/10/14
Riulf Rustad <sup>(1)</sup> Board member	-	-	30 205		30 205	27/03/15
Roar Flom Board member	400	400				27/03/15
<b>Total compensation 2015</b>	<b>400</b>	<b>400</b>	<b>30 232</b>			

- 1) Silje Augustson and Riulf Rustad do not receive any compensation as board members in Noreco Norway. All compensations are payed by Norwegian Energy Company ASA
- 2) The number of shares in the parent company Noreco ASA owned by board members is allocated between private shareholding and shareholding through companies controlled by board members. Number of shares owned as of 31 December 2015
- 3) The number of options in the parent company includes bonus shares according to the Group's incentive arrangement
- 4) Figures show the net increase in share holding in the parent company in 2015
- 5) Silje Christine Augustson was elected to the board 27 October 2014, and was elected as Chair of the Board 13 January 2015 and reelected as Chair of the Board 27 March 2015

#### Director's fees

The annual remuneration to board members is decided on by the Shareholder's Meeting. Current benefits are;

The Chair of the Board receives an annual remuneration of NOK 500 000 and the other shareholder elected members of the board receive an annual remuneration of NOK 400 000. The remuneration for Silje Augustson and Riulf Rustad is payed in ASA. The remuneration is paid quarterly. Two of the Board members have entered into consultancy agreements to provide services to the Company on an hourly basis at a cost of NOK 2 000 per hour. Please refer to the parent company consolidated financial statement for more information.

In addition to the above, Board members are reimbursed for travel expenses and other expenses in connection with company related activities.

For more information on remuneration please refer to annual group accounts.

## Compensation to key management for 2014

(NOK 1 000)	Remuneration	Bonus earned 2013, paid 2014	(1) Retention bonus for 2014 paid 2015	Pension	(2) Other remuneration	(3) Total compensation	(4) Number of shares	(5) Number of options and bonus shares	(6) Shares purchased in 2014
<b>Senior executives</b>									
Tommy Sundt <sup>(7)(9)</sup>									
CEO	913			29	143	1 085			
Svein Arild Killingland <sup>(7)</sup>									
CEO	3 380	1 708		74	692	5 853	15 000	179 736	15 000
Odd Arne Slettebø <sup>(8)</sup>									
CFO	1 250	118		69	114	1 550	2 282	25 780	2 000
Ørjan Gjerde <sup>(9)</sup>									
CFO	1 708	823		54	235	2 820	10 000		10 000
Lars Fosvold									
VP, Exploration	2 134	294	300	74	1 398	4 199	22 912	92 282	20 000
Øyvind Sørbo									
VP, Commercial	1 872	254	200	73	850	3 249	13 542	79 226	11 606
<b>Total compensation 2014</b>	<b>11 256</b>	<b>3 195</b>	<b>500</b>	<b>372</b>	<b>3 431</b>	<b>18 755</b>	<b>63 736</b>	<b>377 024</b>	<b>58 606</b>

1) The accrued retention bonus for 2014 was settled in January 2015

2) Other remuneration include compensation for lapse of pension agreement exceeding 12G, telephone, broadband and other minor remunerations

3) All figures stated regarding salary and other compensation based on full year 2014, not only part of the year that person held a position with reporting requirement

4) The number of shares owned by key management is allocated between private shareholding and shareholding through companies controlled by key management. Number of shares owned as of 31 December 2014.

5) The number of options includes bonus shares according to the Company's incentive arrangement

On 21 January 2014 the repair share issue related to the refinancing in the fourth quarter 2013 was completed. On the repair key management received shares.

6) Figures show net increase in share holding in 2014

7) Tommy Sundt was appointed CEO from the 24 November 2014 replacing Svein Arild Killingland

8) Odd Arne Slettebø was appointed CFO from the 24 November 2014 replacing Tommy Sundt

9) Ørjan Gjerde left Noreco 31 August 2014 and was replaced by Tommy Sundt who joined Noreco on 2 September 2014 as CFO

Number of shares and options in the above table, are shares and options in the parent company Noreco Energy Company ASA

Group management has an arrangement of 12 months pay after termination of employment. The arrangement is applicable if the Company enters into a merger or an acquisition and the person concerned has to resign from his/her position.

The Company has not issued any loans or acted as a guarantor for directors or management.

There is no agreement on compensation to members of the Board of Directors.

**Share-based compensation**

The Noreco Group has an option program established in January 2008 that also includes staff in Noreco Norway AS. The purpose of the program is to establish a long-term incentive program for employees.

Share options are granted annually by the Board in parent company Norwegian Energy Company ASA. The options will be fully acquired after three years and expire after five years. The options will according to plan be settled when the shares are issued. The shares that are issued are in Norwegian Energy Company ASA.

The Group has an agreement where employees have an option to purchase shares equivalent to up to 50% of their bonus at the payment date. Employees who retain these shares for two years, and are still employed in Noreco by the expiration of the two-year period, will be granted an option to receive additional shares at a one-to-one basis.

Fair value of the option is calculated by external advisors using the Black and Scholes Merton option pricing model. Inputs to the option pricing model are for instance grant date, exercise price, expected exercise date, volatility and risk free rate.

Historic volatility in the Noreco shares has been used to estimate volatility. The share price for the first 12 months after listing on the stock exchange has been left out of the estimation, as the share price usually has an abnormal volatility in the initial phase, before stabilizing. Fair value of the options is measured at the grant date and is expensed linearly over the contribution time. The cost is booked in the company of the employee.

Noreco Norway is charged with part of options cost from Group, related to personnel in Noreco Norway. This cost is offset against equity (Accumulated deficits) in the company.

**Social security tax:**

Social security tax is booked progressively at the reporting intervals if the share price is higher than the exercise price.

There has been no accrual for social security tax in 2014 or 2013 as the share price is lower than the exercise price.

## 25 Subsequent events

On 3rd of February Noreco announced that it did not achieve the necessary approval from the NOR06 bondholders for the Djerv-deal. It was nevertheless, by management, regarded as highly likely that an amended transaction would achieve the support from the bondholders and that the transaction will be completed with effective date 1 January 2016. Subsequently, on the 2nd of March, Noreco announced that its fully owned subsidiary Noreco Norway AS had entered into a Sale and Purchase Agreement with Det norske oljeselskap ASA ('Detnor') for the sale of its remaining exploration licences, employees and a cash balance of approximately NOK 45 million, to be adjusted for working capital. The effective date of the transaction is 1 January 2016. Subject to completion, the proposed transaction will constitute a ceasing of all of Noreco Norway's petroleum activities. The transaction entered into with Detnor was conditional on approval from the NOR06 bondholders, which was received on the 16th of March. Additionally, the proposed transaction is conditional upon approvals by the Ministry of Petroleum and Energy and the Ministry of Finance.

# AUDITOR'S REPORT



**KPMG AS**  
Verkgata 1A  
P.O. Box 57  
N-4064 Stavanger

Telephone +47 04063  
Fax +47 51 57 12 29  
Internet [www.kpmg.no](http://www.kpmg.no)  
Enterprise 935 174 627 MVA

To the Annual Shareholders meeting in Noreco Norway AS

## INDEPENDENT AUDITOR'S REPORT

### Report on the Financial Statements

We have audited the accompanying financial statements of Noreco Norway AS, which comprise the statement of financial position as at 31 December 2015, and the statement of comprehensive income, statement of changes in equity and cash flow statement 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 the International Financial Reporting Standards as adopted by the 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.

#### Offices in:

Oslo	Haugesund	Stavanger
Alta	Knarvik	Stord
Arendal	Kristiansand	Straume
Bergen	Larvik	Tromsø
Bodo	Mo i Rana	Trondheim
Elverum	Molde	Tynset
Finnnes	Narvik	Tønsberg
Grimstad	Sandefjord	Ålesund
Hamar	Sandnessjøen	

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Statsautoriserte revisorer - medlemmer av Den norske Revisorforening

### ***Opinion***

In our opinion, the financial statements are prepared in accordance with the law and regulations and give a true and fair view of the financial position of Noreco Norway AS as at 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

### **Report on Other Legal and Regulatory Requirements**

#### ***Opinion on the Board of Directors' report***

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 concerning the financial statements, the going concern assumption and the proposal for the allocation of the profit is consistent with the financial statements and complies with the law and regulations.

#### ***Opinion on Accounting 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 the 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.

Stavanger, 2 May 2016

KPMG AS



Mads Hermansen

*State Authorized Public Accountant*



# STATEMENT OF COMPLIANCE

# STATEMENT OF COMPLIANCE

## BOARD AND MANAGEMENT CONFIRMATION

Today, the board of directors and the general manager reviewed and approved the board of directors' report and the Noreco Norway AS annual financial statements as of 31 December 2015.

To the best of our knowledge, we confirm that:

- the Noreco Norway AS annual financial statements for 2015 have been prepared in accordance with IFRSs and IFRICs as adopted by the European Union (EU), and additional Norwegian disclosure requirements in the Norwegian Accounting Act, and that
- the financial statements for Noreco Norway AS have been prepared in accordance with the Norwegian Accounting Act and Norwegian Accounting Standards, and
- that the board of directors report for the company is in accordance with the requirements in the Norwegian Accounting Act and Norwegian Accounting Standard no 16, and
- that the information presented in the financial statements gives a true and fair view of the company's assets, liabilities, financial position and results for the period viewed in their entirety, and
- that the board of directors' report gives a true and fair view of the development, performance, financial position, principle risks and uncertainties of the company.

30 April 2016

**Riulf Rustad (Sign)**  
*Board member*

**Silje Augustson (Sign)**  
*Chair of the board*

**Julien Balkany (Sign)**  
*Board member*

**Lars Fosvold (sign)**  
*General Manager*



**Noreco Norway AS**  
Badehusgata 37  
P.O. Box 550 Sentrum  
4003 Stavanger

[www.noreco.com](http://www.noreco.com)