



## 2010 ANNUAL ACCOUNTS

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*Cover Picture: Norse Energy well site in Appalachia*



# 2010 DIRECTORS' REPORT

## Directors' Report

Norse Energy Corp. ASA was listed on the Oslo Stock Exchange (OSE) on 13 July 2005, and had its 5 year anniversary as a listed entity in 2010.

The Company's headquarter is in Oslo, Norway. Current operations are located in the Appalachian Basin in the northeast United States, primarily in the states of New York and Pennsylvania, and the Company has its operational head office in Buffalo, New York State.

## Environment, Health and Safety (EHS)

In order for Norse Energy to meet its corporate goals and objectives, the Company maintains high standards for environment, health and safety in its offices and in the field. EHS is the Company's highest priority. The Company is focused on continuously improving its work environment and being flexible and timely in implementing new procedures to ensure consistency in safety results as conditions change. The Company's activities at the headquarters in Norway have no impact on the environment. In the United States, where the Company operates all of its natural gas properties, the Company follows strict environmental and safety policies in accordance with US federal and state regulatory requirements governing such exploration and production activities. To the Company's knowledge, all the operations where the Company was involved have been conducted within limits set by approved environmental regulatory authorities.

It is the Company's policy to always work towards identifying and employing technical solutions that ensure safe and efficient operations. This policy has been in place during 2010 for all drilling projects. To the Company's satisfaction, no incidents led to loss of human lives, damage on property or tarnishing the Company's reputation in the year.

Company time lost due to employee illness was 0.4% percent during 2010, 0.1% higher than 2009. The lost time in both years was considerably lower than industry averages in relevant categories. However, Norse Energy did have one reportable incident with two lost workdays in 2010 which kept the Company from achieving its goal of zero incidents. The incident involved an administrative employee spraining an ankle at the Norwich business office during office hours. Because of this incident Norse Energy recorded a Lost Work Day Rate (LWDR) (the number of injuries leading to absence per million hours worked) of 6.9 in 2010 compared to 0 in 2009.

The Company is not involved in research and development activities.

## Corporate Trends and Developments

The year 2010 was impacted by several corporate events.

### *Organizational Changes*

In June 2010 the Company appointed Richard Boughrum as Chief Financial Officer. In September 2010 Mark Dice was appointed President and Chief Executive Officer.

### *Demerger and bond restructuring*

In June 2010 Norse Energy demerged its Brazilian assets into a new Company which is called Panoro Energy ASA (Panoro). All shares of Panoro were listed on the Oslo Stock Exchange on 8 June 2010. This marked the end of a long process to create two separate and distinct business units through a demerger. In connection with the demerger it was decided to renegotiate and restructure the bond repayment schedule. The debt restructuring was completed in mid July 2010.

In the first quarter of 2010, in anticipation of the demerger of the Brazilian assets, Norse Energy issued 79,673,585 new shares and raised NOK 338.6 million (USD 60.1 million) in a private placement and subsequent repair offering. In July 2010 following the demerger Norse Energy issued 65,000,000 new shares and raised NOK 110.5 million (USD 16.2 million) in a private placement in association with the bond restructuring in June, 2010.

Norse Energy emerges from 2010 as a focused on-shore natural gas Exploration & Production Company (an "E&P" company). Streamlining the Company's operations will be an ongoing process. It is the intent of the Company to divest assets or acreage not deemed core for its E&P activities which are its primary focus.

### *Operations*

In early 2010, after drilling two Herkimer wells early in the year, Norse Energy decided to halt drilling while investigating water influx in some newer wells. The water influx was mitigated in the second quarter. The Company acquired 3D seismic on 36,450 acres in the central New York acreage to better understand drilling target selection which would improve drilling success and help to avoid drilling risks such as the water influx issue. Drilling resumed on 25 October utilizing the acquired 3D seismic.

During the third quarter Norse Energy completed the purchase of the final segment of a continuous right of way, making it possible to connect a future pipeline system to three interstate pipelines.

Norse Energy is in an early development phase of its acreage position in central New York State. In addition to capital spending on E&P activity, the Company must also invest in infrastructure in the form of gathering system pipeline, including compression capacity.

#### *Partnerships*

Norse Energy entered its first Herkimer joint venture with Stryker Energy LLC in 2010. The 50% partnership resulted in Stryker's initial participation in five wells, three of which it funded. The Stryker Energy partnership was expected to extend to additional wells, but was not extended due to non-performance by Stryker Energy under the terms of the agreement.

A second joint venture partnership was entered into with Bradford Energy Capital XXIX L.P., in December 2010. Bradford will have a working interest of between 25-50% in up to 18 wells in the 2010-2011 drilling program. Bradford pre-funded its participation with a cash payment of USD 9 million in December 2010. Given the limitations on financial resources available to the Company, the joint venture partnerships allow Norse Energy to develop its acreage more rapidly than without partners and to transfer more acreage from a leased status to a held by production status than otherwise possible.

#### *Regulatory Developments*

In December 2010 the New York State Governor issued an executive order barring the New York State Department of Environmental Conservation from issuing large volume hydro-fracturing permits in New York until the Supplemental Generic Environmental Impact Statement (SGEIS) is finalized. This is currently expected to occur in the summer of 2011.

#### *Divestitures*

On 17 February 2011 the Company announced that it had reached an agreement to sell its Gathering and Transmission ("G&T") business and its Energy Marketing ("EM") business in two transactions totaling approximately USD 20.7 million to Appalachian Trading and Marketing LLC ("Appalachian"). Appalachian is a newly formed company which was established to acquire the G&T and EM assets of the Company. Appalachian was formed by the former CEO of Norse Energy. The sale to Appalachian was made at arms' length in a process employing an investment banker. The Board has obtained a report from an independent third party that concludes that the shares will be sold at the highest price offered.

The sale of the Gathering and Transmission business is awaiting regulatory approval and is expected to close in the second quarter of 2011. The sale of the marketing business is not subject to regulatory approval and could close earlier than the G&T business upon mutual agreement of the parties.

These expected divestitures encompass two of the three segments described in the Operations section in this Director's Report. Going forward the Company expects to operate in one business unit which is Exploration and Production.

#### *Natural Gas Prices*

During 2010 the price of natural gas in the United States continued to be at relatively low levels due to the slow recovery from the economic downturn and the technological advances which are significantly increasing the supply of natural gas. The combined pressures of low demand and increasing supply for natural gas in the United States has caused a decoupling of natural gas prices from oil prices. Oil prices have risen due to global demand and international risk factors affecting the supply of oil.

### **The Accounts**

The Board of Directors confirms that the annual financial statements have been prepared pursuant to the going concern assumption, in accordance with section 3-3 of the Norwegian Accounting Act, and that this assumption was made based on the financial position of the Company at the time the accounts were approved. This assumption is further based upon the successful outcome of the financial challenges facing the Company as described in this report. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

The Extraordinary General Meeting on April 15, 2011 approved a capital increase after the successful USD 30 million (NOK 168 million) private placement completed March 25, 2011. The private placement is followed by a subsequent issue of up to 37,500,000 additional shares directed to shareholders not participating in the private placement. The latter subsequent issue could raise an additional USD 5.4 million (NOK 30 million). The capital increase, along with the announced strategy of monetizing selected assets or acreage deemed not core, enables the company to operate in the near term with additional financial flexibility to pursue its Herkimer development program, pipeline capacity expansion and preparation for drilling in the Marcellus and Utica shale provided larger scale hydro-fracturing regulations are implemented in New York State (see paragraph 5 below).

At present, the Company is exploring and drilling the Herkimer sandstone formation exclusively and is operating at a loss. Without further asset sales and capital markets financings and/or refinancing of debt, the cash flow generated from the Herkimer production alone is not expected to generate sufficient cash flow for the Company to both conduct its operations and meet its obligations for bond debt principal repayment in July 2012 through 2014, or sooner in the event debt covenant violations result in the acceleration of debt principal payments into 2011. Currently scheduled principal payments are USD 3.7 million in 2011, USD 35.6 million in 2012, USD 41.2 million in 2013 and USD 9.4 million in 2014. Refer to note 20 in the Group accounts for a further overview of the loan covenants.



In order to address the Company's future debt maturities the Board of Directors has stated that the Company should pursue possibilities to monetize assets in addition to capital markets transactions. The sales of the Energy Marketing Business and the Gathering and Transmission Business have been announced. Combined, they will generate approximately USD 16.5 million in net cash to Norse and will reduce outstanding debt by approximately USD 4.2 million when the transactions close. The Gathering and Transmission Business is subject to regulation by the New York Public Service Commission who must therefore approve the sale. No such regulatory approval is anticipated to be required for the Energy and Marketing Business. The Company is also pursuing the sale of additional assets including its gathering system and right of way in Central New York and potentially farming out portions of Herkimer and/or shale acreage.

In December 2010, the New York State Governor issued an executive order prohibiting the New York State Department of Environmental Conservation from issuing large volume hydro-fracturing permits in New York until the Supplemental Generic Environmental Impact Statement (SGEIS) is finalized. The Governor of the State of New York has directed the Department of Environmental Conservation to release the regulations on or about 1 June, 2011 with a minimum 30-day comment period to follow. The actual timing of the release and the final regulations cannot be predicted with certainty. A timely and positive outcome of the regulatory process will enable Norse to explore and drill the Marcellus and Utica formations in New York State on its own and/or to pursue development with partners in industry joint ventures, known as farm outs, or farm-ins, in which partners may provide operating expertise and/or capital contributions to the development of defined acreage. The release of the regulations is also likely to increase the interest of other natural gas production companies and/or midstream natural gas transmission companies in the potential acquisition of certain of the company's assets if they were to be offered for sale. The Company expects a combination of asset sales and capital markets transactions to enable it to meet its scheduled debt maturities or enable it to refinance them.

## Business Segments

### *Exploration and Production (E&P)*

The E&P segment conducts its business through Norse Energy Corp. USA.

The revenues in this business segment are derived from selling gas produced to wholesale customers in the northeastern United States from wells which the company drills alone and with its joint venture drilling partners. Also, included in the E&P segment assets are 67 miles of midstream gathering pipeline. This pipeline gathers gas from the wellheads and transports it to sales points. The gathering system is currently connected to one interstate pipeline and one local distribution utility company. The Company also owns a contiguous approximately 75 mile pipeline right of way corridor which will enable the company to fulfill a long range strategic plan of interconnecting three interstate pipelines and the utility system. This pipeline system is not included in the asset sale announced 17 February 2011. The gathering system and the right of way may be sold in future transactions to a midstream operator or operators if favorable terms can be achieved.

The Company owns and holds mineral rights land leases in New York State. The mineral rights leases encompass approximately 130,000 acres in the Herkimer, Utica and Marcellus formations in central New York and 50,000 acres in western New York State. Approximately 20,500 acres of these leases are now "Held by Production" through the payment of production royalties for the economic lifetime of the producing wells. In addition to the leases, the Company is the owner of the mineral rights for approximately 5,200 acres.

Revenue in 2010 amounted to USD 13.5 million, down 12% from USD 15.3 million in 2009. This primarily reflects lower production due to the temporary suspension of drilling in 2010 until October to acquire and evaluate the 3D seismic program. EBITDA was USD -2.7 million, compared to USD 3.4 million in 2009, whereas EBITDAX declined to USD 2.5 million from USD 8.1 million the year before. EBITDAX is defined as EBITDA adjusted for exploration costs, mostly 3D seismic investments. The decrease is primarily attributed to non-recurring costs for well testing and higher than normal general and administrative expenses as a result of organization changes.

### *Gathering and Transmission (G&T)*

The segment conducts its business through Norse Energy Pipeline LLC and Nornew Energy Supply Inc. The entities own and operate a 348 mile transmission and gathering system. Norse Energy Pipeline LLC owns and operates about 320 miles of high pressure steel pipeline transporting gas from more than 6,500 gas wells located in western New York and northwestern Pennsylvania. The system interconnects with a major interstate pipeline and a local wholesale customer. The revenues in G&T are generated from transporting natural gas to end users in the North East USA. This business segment is included in the announced sale to Appalachian.

In 2010, revenue amounted to USD 3.2 million, a decline of 25% from USD 4.3 million in 2009. The decline reflects reduced volumes from several major producers on the pipeline, and maintenance-related curtailments in the second half of the year. EBITDA was USD 1.3 million, a decline of 38% from USD 2.2 million in 2009.

### *Energy Marketing (EM)*

The segment conducts its business through Mid American Natural Resources, an Energy Marketing and Trading Company in the Appalachian region. The EM subsidiary adds value to the G&T business by attracting third party gas flow to the Company's pipelines. The EM business offers a full range of services to natural gas producers and pipeline companies. This business segment is part of the announced sale to Appalachian.

Revenue declined 7% to USD 97.9 million in 2010, compared to USD 105.2 million in 2009. The decline reflects price competition and lower market demand. EBITDA was USD 1.7 million compared to USD 2.7 million, a 37% decrease explained by lower volumes, lack of volatility and lower margins in the Appalachian basin.

## Condensed Consolidated Income Statement

Amounts in USD (1,000)	2010	2009	Change
<b>Total Revenues</b>	<b>103,791</b>	<b>114,785</b>	<b>-10%</b>
<b>Total Operating Expenses</b>	<b>(143,087)</b>	<b>(130,153)</b>	<b>10%</b>
<b>Operating Loss</b>	<b>(39,296)</b>	<b>(15,368)</b>	<b>156%</b>
Net Financial Items	(18,303)	(12,757)	43%
<b>Loss before taxes</b>	<b>(57,599)</b>	<b>(28,125)</b>	<b>105%</b>
Income Tax Benefit	350	9,319	-96%
<b>Net Loss from Continuing Operations</b>	<b>(57,249)</b>	<b>(18,806)</b>	<b>204%</b>
Net Income from Discontinued Operations	22,606	(3,502)	-746%
<b>Net Loss</b>	<b>(34,643)</b>	<b>(22,308)</b>	<b>55%</b>

### Income Statement

Gas production dropped from 2,307,647 Mcf in 2009 to 2,116,980 Mcf in 2010. The 8% decrease was due to the cessation of drilling in the second and third quarters of 2010 while analyzing Herkimer well performance and waiting for the completion of the analysis of 3D seismic acquisition in the summer months.

Total revenue was USD 103.8 million in 2010 compared with USD 114.8 million in 2009, a 10% decline from the previous year. The revenue decline was driven by year over year lower volumes in all segments contributing negative USD 17.1 million to revenue. E&P was lower due to lower production volume. G&T was lower due to lower customer volume. EM realized prices mainly in the second and third quarter, resulted in overall higher realized year over year revenue, making a positive revenue contribution of USD 6.1 million. The revenues and cost in the EM segment is accounted for on a gross basis. The positive development in effective sales prices was offset by higher prices on gas purchased for resale.

Exploration expenses increased from USD 4.7 million to USD 5.2 million mainly due to the acquisition of 3D seismic in 2010. The Company experienced no dry hole costs in 2010 compared to USD 2.3 million expensed in 2009.

Production expense was USD 4.5 million in 2010 compared to USD 2.0 million in 2009. This increase was due to well testing for water in-flow and a true-up of prior years' production taxes.

General and administrative expenses increased by USD 4 million to USD 22.7 million largely due to cost incurred in connection with the demerger, debt restructuring and equity issues. The Company will have focus on such expenses and believe that there is potential to reduce the expenses also beyond the extraordinary expenses incurred in relation to the above mentioned extraordinary events.

The Company has 72 employees at year end, 14 fewer than 31 December 2009. The reduction in headcount was due to the demerger.

Depreciation dropped from USD 12.0 million in 2009 to USD 11.6 million due to lower gas production volumes.

Impairment charge was USD 15.5 million in 2010 against a charge of USD 1.6 million in 2009. The main driver was the falling natural gas prices.

Net interest cost increased by USD 1.1 million to USD 13.7 million as a result of the new terms for the bond debt.

The income tax benefit recognized dropped to USD 0.4 million compared to a benefit of USD 9.3 million in 2009. The accounting guidance for recognizing tax benefits and deferred tax assets states that it should be probable that the entity will generate taxable profits to utilize its temporary differences or unused tax losses. Given the difficulty in predicting the outcome and impact on future taxable income, the 2010 accounts reflect no tax benefit from the 2010 net operating loss.

Net loss for the continuing business was USD 57.2 million compared to USD 18.8 million the prior year.

Net profit for discontinued business was USD 22.6 million compared to a loss of USD 3.5 million the prior year.

Net loss for 2010 was USD 34.6 million compared to a net loss of USD 22.3 million in 2009.

Total comprehensive income in 2010 was negative USD 51.3 million compared to negative USD 1.5 million in 2009. Exchange rate translation differences for foreign operations was negative USD 3.4 million in 2010 compared to a positive translation difference of USD 20.6 million in 2009. Reclassifications relating to the demerged Brazilian entities were negative USD 13.3 million.

### Statement of Financial Position

The group's assets were reduced from USD 469.7 million 31 December 2009 to USD 162.9 million 31 December 2010 after demerging the Brazil operations. The group's cash and cash equivalents including cash contributed from Joint Venture partners was USD 24.6 million 31 December 2010 compared to USD 37.3 million 31 December 2009.

Interest bearing debt was USD 99.3 million 31 December 2010 compared to USD 252.9 million the prior year. The debt reduction was partly due to a USD 15.9 million prepayment in July 2010 as part of the bond restructuring agreement and other debt repayment and also because Panoro assumed a portion of the bond debt as part of the terms of the demerger.

### *Cash Flow Statement*

The Company had a net outflow of funds of USD 12.7 million in 2010 compared to an inflow of USD 5.1 million in 2009.

Cash from operations was negative USD 16.5 million compared to positive USD 0.8 million the prior year. The main driver in the increased outflow was the cash effect of the net loss increasing from USD 22.3 million in 2009 to USD 34.6 million in 2010.

Cash outflow from investing activities was USD 27.1 million compared to USD 28.6 million in 2009. Net cash inflow from financing activities was USD 39.3 million in 2010 compared to USD 40.8 million.

The discontinued operations net use of cash was USD 9 million in 2010 compared to a use of USD 7.9 million in 2009.

### **Coverage of Loss in Norse Energy Corp. ASA**

The Board of Directors proposes that the loss for the year of NOK 101,451 thousand in the parent Company is covered by other equity with NOK 6,925 thousand and that NOK 94,526 thousand is carried forward. As of 31 December 2010 the parent Company has no unrestricted equity.

### **Funding**

On 31 December 2010 Norse Energy had USD 24.6 million in cash on hand, including USD 9 million contributed by joint venture partners.

Norse obtains its sources of funding from equity, bonds, bank debt, farm out arrangements and sale of assets.

The Company is currently experiencing cash operating losses from its E&P operations. These losses increase the Company's need for funding. The Company expects to restore profitable operating income performance in twelve to twenty four months from the resumption of Herkimer drilling using 3D seismic to improve well site selection. The Herkimer drilling was resumed in the fourth quarter of 2010.

### *Equity Issuance*

The equity to asset ratio 31 December 2010 was 15.4 percent compared to 25.3 percent the prior year.

The Board is continuously working to improve the Group's financial flexibility and it has recognized the need to improve the financial position of Norse Energy.

In the first quarter of 2010, in anticipation of the demerger of the Brazilian assets, Norse Energy issued 79,673,585 new shares and raised NOK 338.6 million (USD 60.1 million) in a private placement and subsequent repair offering. In July 2010 following the demerger Norse Energy issued 65,000,000 new shares and raised NOK 110.5 million (USD 16.2 million) in a private placement in association with the bond restructuring in June, 2010.

To improve the equity ratio and liquidity for current operations, on 25 March 2011 the Company raised NOK 168 million (USD 30 million) by proposing to issue new 210,000,000 shares in the company. The Extraordinary General Meeting 15 April 2011 voted in favor of the capital increase and also voted in favor of a proposal to offer up to 37,500,000 new shares to existing shareholders that did not participate in the initial offering. The latter repair issue could raise an additional NOK 30 million (USD 5.4 million).

The capital increase will enable the company to operate in the near term and continue the development of its Herkimer drilling program and the expansion of its gathering system as it make preparations for the regulations which will allow shale development on its acreage position in New York State.

### *Bond restructuring*

On 30 June 2010 the Company entered into a bond restructuring agreement with its bondholders which provided for an extension of maturities on USD 45 million of debt by one year and an extension of two years on an additional USD 45 million of debt. In addition, in July Norse Energy prepaid USD 15.9 million in principal to bond holders. The 1 July 2010 equity offering mentioned above should be viewed in the context of this restructuring of our debt.

Principal payments on the bonds were adjusted accordingly to the following table:

(USD millions)

	<b>Old</b>	<b>New</b>
2010	8.8	15.9
2011	75.0	3.7
2012	22.0	35.6
2013		41.2
2014		9.4
<b>Total</b>	<b>105.8</b>	<b>105.8</b>

The extension of the debt maturities in 2010 and the reduction to a USD 3.7 million principal payment in 2011 provides Norse Energy with increased financial flexibility and allow for building shareholder value by pursuing its development plans for the significant resource base of ~3.9Tcf (697MMBOE) of natural gas primarily in the Herkimer, Marcellus Shale and Utica Shale.

#### *Bank Reserve Based Lending*

Norse Energy utilizes reserve based bank lending by pledging its natural gas reserves as a security interest in a bank revolving credit to increase the Group's funding ability. Natural gas reserves are evaluated twice annually by Schlumberger and the bank's own independent reserve consultant and, based upon the market value of the reserves, the borrowing base under the revolving credit facility is re-determined. As of 31 December 2010 the Group had drawn USD 14.1 million of a USD 14.2 million borrowing base. Due to the nature of the credit line, the debt is classified as a current or short term liability.

For further details on bond debt and funding, please refer to note 20 in the consolidated financial statements.

#### *Joint Ventures*

In 2010 Norse Energy entered into farm out arrangements with two joint venture partners. During the fourth quarter the company announced two joint venture agreements to drill Herkimer wells with Stryker Energy and Bradford Energy Capital XXIX L.P. Both partners are experienced Appalachian investors. The partners were attracted to Norse Energy as the operating partner by the Company's application of science and technology to drilling Herkimer wells utilizing state of the art 3D Seismic.

Stryker Energy funded its 50% participation in three wells in October, 2010. The Stryker Energy partnership was expected to extend to additional wells, but was terminated due to non-performance by Stryker Energy under the terms of the agreement.

Bradford Energy pre-funded its 25-50% working interest participation in up to 18 wells in the 2011 Herkimer Drilling program with USD 9 million.

#### *Asset Sales*

On 17 February 2011 the Company signed an agreement to sell its Gathering and Transmission business, known as Norse Energy Pipeline, and its Energy Marketing business, known as Mid-American Natural Resources, to Appalachian Trading and Marketing, LLC. ("Appalachian"). The transaction is expected to close in the second quarter of 2011. The net cash effect to the Company from the consideration of USD 20.7 million is expected to be approximately USD 16.5 million after debt repayment of approximately USD 4.2 million.

### **Risk Factors**

There are numerous risk factors that should be reviewed by an investor in Norse Energy. The list below summarizes many of the major risk factors the Company faces but it is not inclusive of every risk.

#### *Liquidity*

At present the Company is exploring and drilling the Herkimer sandstone formation exclusively. The cash flow generated from operations from the producing wells in this formation is not sufficient for the Company to meet its obligations for bond debt repayment in July 2012 and 2013. After principal payments of USD 3.7 million in 2011, USD 35.6 million and USD 41.4 million become due in 2012 and 2013, respectively. The Company has been actively pursuing the sales of assets to reduce debt. The timing and the success of asset sales may or may not be sufficient to enable the Company to eliminate or to reduce its debt burden to manageable levels. If the asset sales are unsuccessful or not timely, the Company may seek refinancing in the capital markets which could include both debt and equity alternatives.

#### *Natural Gas Price*

Natural gas is an energy commodity. Substantial or prolonged decline in gas prices could have a material adverse effect on our operations and our financial condition. Future prices cannot be predicted with any degree of certainty. In addition to the adverse effects on our financial condition, lower prices can lead to further reviews for asset impairment that could have material effect on the results of our operations. The Company hedges a portion of its future natural gas sales to provide some price stability in its base production.

#### *Exploration Cost & Reserve Volume*

Drilling costs and well completion costs are often uncertain due to site-specific drilling conditions. The majority of proven reserves are within a relative confined geographic area in the New York state. If Norse Energy cannot find and develop additional reserves through its drilling program, the present reserves and base production will decline from current levels following normal decline curves for natural gas wells. In order to explore and produce in new areas of the Norse Energy acreage, gathering pipeline and compression capacity will need to be expanded in order to deliver the natural gas to market.

#### *Competition*

There is competition from other oil and gas companies in all areas of our operations. Some of these companies are much larger, better integrated and have organizational and financial strength enabling these companies to invest where the Company might be limited by its human and financial resources. The Company must compete for drilling equipment and services, pipeline equipment and services and for the acquisition and extension of its acreage position.

#### *Government Regulation*

Norse Energy owns and leases mineral rights in New York State. At present the State Government does not issue permits allowing large scale hydraulic fracturing of shale gas wells. The Company's Herkimer well operation is not affected by this, but the estimated larger reserves in the Marcellus and Utica shale formations cannot be accessed economically until this ban is lifted. The New York Department of Environmental Conservation release of its



Supplemental Generic Environmental Impact Statement (SGEIS) is expected in the summer of 2011. There is no certainty that the SGEIS will be finalized this summer. The regulatory process in New York has had a history of delay. The Company has no track record of drilling horizontal shale wells with large scale hydraulic fracturing. However, the technology is readily available from drilling subcontractors which the company employs.

#### *Funding and Liquidity*

In order to address the Company's cash requirements in 2012 and 2013 and the general uncertainty in the Company's situation the Board of Directors has stated that the Company should pursue possibilities to monetize assets. The sale of the Energy Marketing Business and Gathering and Transmission Business will generate approximately USD 16.5 million in net cash to Norse Energy after USD 4.2 million in debt reduction when the transaction closes, however the proceeds from the transaction are not sufficient to meet the Company's 2012 debt principal repayment.

Financing and liquidity risk arises from not having the necessary resources from current operations available to meet maturing debt liabilities. Based on the restructured bond principal repayment schedule the Company regards the financing and liquidity risk as low in the short term. Failure to maintain liquidity could also have a financial impact through higher interest rates and the Company's financial performance. The bond debt repayment profile, requiring installments of USD 35.6 million in 2012 and USD 41.4 million in 2013 requires future fundraising either from debt refinancing, sale of assets or equity issues. The funds raised from this activity may not be sufficient to cover maturing liabilities.

The covenants for the bond loans, apply to the Company's U.S. subsidiary, Norse Energy Holdings, Inc., ("NEHI") are as follows:

The Company shall maintain book equity of minimum USD 36 million; and Total equity shall constitute at least 30% of "Capital employed" in the parent company ("NEHI"). "Capital employed" is defined as the Company's total equity plus interest bearing debt, including financial instruments that have the commercial effect of borrowing, including guarantees and leasing commitments.

In the Company's revolving bank agreement (RBL), the Company is required to maintain a defined working capital ratio, minimum net worth, a ratio of general and administrative expenses to net revenues, senior debt to EBITDAX, and other non-financial covenants related to its reserve base lending. At 31 December 2010, the Company was not in compliance with the general administrative expenses to net revenues and the senior debt to EBITDAX covenant. The general and administrative expense to net revenues issue arose from the sale of the Medina assets and the building of resources by retaining staff to capitalize on the Company's drilling opportunities and take full advantage of the opportunities available with its existing acreage position. The senior debt to EBITDAX ratio rose above the required ratio as Q4 EBITDAX declined due to lower production in the quarter.

#### *Currency Risk and Interest*

The Company's functional currency is USD. All of the Company's operations and all of its cash flow are in USD. The Company has a small amount of NOK denominated debt and incurs a relatively small amount of its operating expenses in NOK for its corporate office, which include capital markets, investor relations and legal services in Norway.

Currency risk for Norse Energy is a direct result of a mismatch of the currency required for funding exploration and development initiatives (United States Dollars) versus the denomination of some of the Company's funding sources (Norwegian Kroner). There is no currency hedging instruments in place 31 December 2010. The NOK denominated bond debt is in USD terms 4.3% of outstanding bond debt at year end. The first installment of two equal payments of NOK 11.5 million is in 2013 and the last is in 2014.

Norse Energy is exposed to interest risk since the group borrows funds at both fixed and floating rates. There are no interest swap contracts in place 31 December 2010.

## **Corporate Governance**

The principle behind good corporate governance is to establish and maintain a strong, sustainable and competitive Company in the best interest of the shareholders, employees, business associates, third parties and society at large. The Board recognizes that the shareholders and others should have full confidence in the way the Company is governed and managed. A successful value-added business is profoundly dependent upon transparency and internal and external trust. Norse Energy believes that this is achieved by building a solid reputation based on its financial performance, values and by fulfilling promises. Thus, good corporate governance combined with the Company code of conduct is an invaluable tool in helping the Board to ensure that the Company properly discharges its duty.

The Board acknowledges the Norwegian Code of Practice for Corporate Governance of 21 October 2010 and the principle of comply or explain. Norse Energy has implemented the Code and will use its guidelines as the basis for the Board's governance duties. A summary of the corporate governance policy is incorporated in a separate section of this report and a lengthier version of the policy is posted on the Company's website at [www.NorseEnergy.com](http://www.NorseEnergy.com).

## **Discrimination and Equal Employment Opportunities**

Norse Energy is an equal opportunity employer, and integrates an equality concept into its human resources policies. All employees are governed by Norse Energy's Code of Ethics to ensure uniformity within its workforce. Norse Energy does not tolerate any form of harassment, discrimination or insulting behavior that employees, business contacts or others might find threatening or demeaning. All employees are entitled to fair and equal

treatment. At Norse Energy, a diversified working environment is embraced, valuing and respecting individual abilities and differences. Employees are remunerated based upon skill level, performance and position within the Company. Norse Energy is a knowledge-based Company in which a majority of the workforce has earned a college or university level education, or has obtained industry-recognized skills and qualifications specific to their job requirements. Norse Energy supports its employees in continuing development of their skills through ongoing education that furthers Norse Energy's goals of being at the forefront of efficient and innovative industry practices. Norse Energy encourages measures that make it easier to combine a career with family life.

## Personnel and Organization

The Norse Energy workforce declined from 86 to 72 in 2010. The reduction was primarily due to the demerger of the Brazilian assets. Of the remaining employees 61 % are men and 39% are women. The ratio of females will decline to 38% after the contemplated sale of the Energy Marketing and Gathering and Transmission businesses. The working environment in the Company is considered good.

## Directors and Shareholders

According to its Articles of Association, the Company must have a minimum of five and a maximum of eight directors on its Board. The current number of Board members is five, all non-executive directors. Two out of five shareholder elected board members are women, and Norse Energy Corporation ASA thus fulfills the requirement under section 6-11a of the Public Limited Liability Companies Act regarding representation of both genders on the Board of Directors. The members have varied backgrounds and experience which offer the Company valuable perspectives. The Board held 22 meetings during the year.

## Outlook

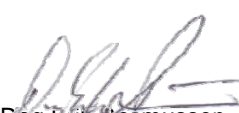
The demerger of the Company has created a distinct business case positioned to exploit substantial growth opportunities in the northeastern United States.

The 3D seismic covering 36,450 acres purchased in 2010 has so far increased our understanding and enabled us to drill wells in the Herkimer formation with production results in line with our expectations. The seismic data supports the future anticipated shale opportunities within the same acreage.

The New York Department of Environmental Conservation release of its Supplemental Generic Environmental Impact Statement (SGEIS) is expected in the second half of 2011. Norse Energy will in 2011 continue to develop the Herkimer formation while preparing to commence commercial development of its large shale resource potential. However as previously explained in this report the Company's further development is dependent on the successful outcome of the financial challenges facing the Company.

The Board of Directors and Presiden & CEO  
of Norse Energy Corp. ASA

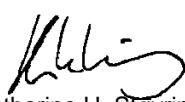
Oslo, April 15, 2011



Dag Erik Rasmussen  
*Chairman of the Board*



Bjarte Bruheim  
*Director*




Katherine H. Støvring  
*Director*



Odd Næss  
*Director*



Kathleen Arthur  
*Director*



Mark Dice  
*President and CEO*



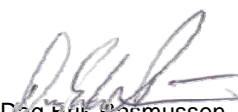
# DIRECTORS' RESPONSIBILITY STATEMENT

Today the Board of Directors and the Chief Executive Officer reviewed and approved the Board of Directors' report and the consolidated and separate financial statements for Norse Energy Corp. ASA for the year ending 31 December 2010. Norse Energy Corp. ASA consolidated financial statements have been prepared in accordance with IFRS's and IFRIC's as adopted by the EU and additional disclosure requirements in the Norwegian Accounting Act and that should have been applied as of 31 December 2010. The separate financial statements for Norse Energy Corporation ASA have been prepared in accordance with the Norwegian Accounting Act and Norwegian accounting standards no 16, as of 31 December 2010.

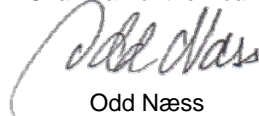
To the best of our knowledge the financial statements for 2010, have been prepared in accordance with applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the Group taken as a whole, and that the Board of Directors' report includes a true and fair review of the development and performance of the business and the position of the Company and the Group taken as a whole, together with a description of the principal risks and uncertainties that they face.

The Board of Directors and Presiden & CEO  
of Norse Energy Corp. ASA

Oslo, April 15, 2011



Dag Erik Rasmussen  
*Chairman of the Board*



Odd Næss  
*Director*




Bjarte Bruheim  
*Director*



Kathleen Arthur  
*Director*



Katherine H. Støvring  
*Director*



Mark Dice  
*President and CEO*



# CONSOLIDATED FINANCIAL STATEMENTS

## Consolidated Statement of Comprehensive Income

(in USD thousands, except earnings per share)	Note	2010	2009 <sup>(1)</sup>
<b>Total revenues</b>	<b>8</b>	<b>103,791</b>	<b>114,785</b>
<b>Expenses</b>			
Trading purchase of natural gas		83,556	91,269
Production costs	<b>21</b>	4,471	1,958
Exploration and dry hole cost		5,231	4,693
Depreciation	<b>8,13</b>	11,622	11,961
Impairment	<b>8,13</b>	15,507	1,632
General and administrative expenses	<b>9,10</b>	22,700	18,640
<b>Total operating expenses</b>		<b>143,087</b>	<b>130,153</b>
<b>Operating loss</b>		<b>(39,296)</b>	<b>(15,368)</b>
Interest income	<b>8</b>	293	201
Interest expense	<b>8</b>	(13,985)	(12,834)
Net foreign exchange gain	<b>8</b>	474	(321)
Other financial items	<b>6,7,8</b>	(5,085)	197
<b>Net financial items</b>		<b>(18,303)</b>	<b>(12,757)</b>
<b>Loss before taxes</b>		<b>(57,599)</b>	<b>(28,125)</b>
Income tax	<b>11</b>	350	9,319
<b>Net income / (loss) from continuing operations</b>		<b>(57,249)</b>	<b>(18,806)</b>
<b>Net income / (loss) from discontinued operations</b>	<b>4,5</b>	<b>22,606</b>	<b>(3,502)</b>
<b>Net income / (loss)</b>		<b>(34,643)</b>	<b>(22,308)</b>
Exchange differences arising from translation of foreign operations		(3,377)	20,620
Reclassification adjustments relating to discontinued foreign operations	<b>5</b>	(13,302)	-
Other comprehensive income		-	181
<b>Other comprehensive income / (loss)</b>		<b>(16,679)</b>	<b>20,801</b>
<b>Total comprehensive income / (loss)</b>		<b>(51,322)</b>	<b>(1,507)</b>
<b>Net loss attributable to:</b>			
Shareholders of the parent company		(33,270)	(18,476)
Non-controlling interests		(1,373)	(3,832)
<b>Total</b>		<b>(34,643)</b>	<b>(22,308)</b>
<b>Total comprehensive loss attributable to:</b>			
Shareholders of the parent company		(48,936)	269
Non-controlling interests		(2,386)	(1,776)
<b>Total</b>		<b>(51,322)</b>	<b>(1,507)</b>
Basic and diluted earnings per share from continuing operations <sup>(2)</sup>	<b>12</b>	(0.12)	(0.07)
Basic and diluted earnings per share from discontinued operations <sup>(2)</sup>	<b>12</b>	0.05	0.00

(1) For comparative purposes, the financial results of Norse Energy do Brazil are shown as discontinued operations.

(2) Calculated using net income for the period less net income attributable to non-controlling interests.

## Consolidated Statement of Financial Position

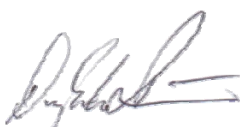
(in USD thousands)	Note	2010	2009
<b>ASSETS</b>			
<b>Non-current assets</b>			
<b>Intangible assets</b>			
License interests and exploration assets	13	23,092	148,984
Goodwill and other intangible assets	14	5,678	5,719
Deferred tax assets	11	-	22,564
<b>Total intangible assets</b>		<b>28,770</b>	<b>177,267</b>
<b>Properties and field investments</b>			
Field investment and equipment	13	85,212	205,140
Other fixed assets	13	2,621	5,680
<b>Total properties and field investments</b>		<b>87,833</b>	<b>210,820</b>
Other non-current assets	16,17	5,021	6,666
<b>Total non-current assets</b>		<b>121,624</b>	<b>394,753</b>
<b>Current assets</b>			
Accounts receivable and other short-term assets	16	16,665	37,628
Cash and cash equivalents	16	24,580	37,303
<b>Total current assets</b>		<b>41,245</b>	<b>74,931</b>
<b>TOTAL ASSETS</b>		<b>162,869</b>	<b>469,684</b>


### Consolidated statement of financial position

(in USD thousands)	Note	2010	2009
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	18	30,466	49,007
Share premium	18	55,771	17,627
Treasury shares		(14)	(14)
Other paid in capital		42,512	76,983
<b>Total paid-in equity</b>		<b>128,735</b>	<b>143,603</b>
Other equity		(103,608)	(54,650)
<b>Total equity attributable to shareholders of the parent</b>		<b>25,127</b>	<b>88,953</b>
Non-controlling interests	19	-	30,084
<b>Total equity</b>		<b>25,127</b>	<b>119,037</b>
<b>Non-current liabilities</b>			
Long-term interest-bearing debt	16,20	80,757	94,750
Deferred tax liabilities	11	-	223
Asset retirement obligations	21	3,084	13,172
Other long-term liabilities	16	7,312	20,203
<b>Total non-current liabilities</b>		<b>91,153</b>	<b>128,348</b>
<b>Current liabilities</b>			
Accounts payable	16	24,216	30,989
Short-term interest-bearing debt	16,20	18,531	158,160
Other current liabilities	16	3,842	33,150
<b>Total current liabilities</b>		<b>46,589</b>	<b>222,299</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>162,869</b>	<b>469,684</b>

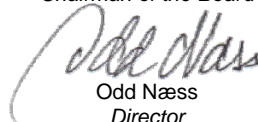
The Board of Directors and Presiden & CEO  
of Norse Energy Corp. ASA

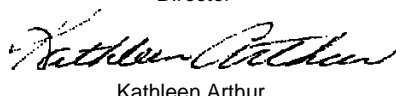
Oslo, April 15, 2011

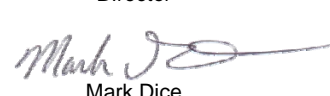
  
Dag Erik Rasmussen  
Chairman of the Board

  
Bjarte Bruheim  
Director

  
Katherine H. Støvring  
Director

  
Odd Næss  
Director

  
Kathleen Arthur  
Director

  
Mark Dice  
President and CEO



## Consolidated Statement of Changes in Equity

(in USD thousands)	Note	Share capital	Share premium	Treasury shares	Other paid in capital	Retained earnings	Other Equity	Attributable to parent shareholders	Non-controlling interests	Total
<b>At January 1, 2009</b>		<b>43,614</b>	<b>261</b>	<b>(14)</b>	<b>76,983</b>	<b>(56,144)</b>	<b>3,049</b>	<b>67,749</b>	<b>-</b>	<b>67,749</b>
Net loss for the year		-	-	-	-	(18,476)	-	(18,476)	(3,832)	(22,308)
Other comprehensive income for the year:		-	-	-	-	-	-	-	-	-
Currency translation and other adjustments		-	-	-	-	-	18,226	18,226	2,394	20,620
Other comprehensive income		-	-	-	-	-	181	181	-	181
Total comprehensive income for the year		-	-	-	-	(18,476)	18,407	(69)	(1,438)	(1,507)
Share issue	18	5,393	17,366	-	-	-	-	22,759	-	22,759
Sale of non-controlling interest <sup>(1)</sup>	6	-	-	-	-	-	(1,522)	(1,522)	31,522	30,000
Employee share options	10	-	-	-	-	-	36	36	-	36
<b>At December 31, 2009</b>		<b>49,007</b>	<b>17,627</b>	<b>(14)</b>	<b>76,983</b>	<b>(74,620)</b>	<b>19,970</b>	<b>88,953</b>	<b>30,084</b>	<b>119,037</b>
<b>At January 1, 2010</b>		<b>49,007</b>	<b>17,627</b>	<b>(14)</b>	<b>76,983</b>	<b>(74,620)</b>	<b>19,970</b>	<b>88,953</b>	<b>30,084</b>	<b>119,037</b>
Net loss for the year		-	-	-	-	(33,270)	-	(33,270)	(1,373)	(34,643)
Other comprehensive income for the year:		-	-	-	-	-	-	-	-	-
Reclassification adjustment relating to discontinued foreign operations	5	-	-	-	-	-	(13,302)	(13,302)	-	(13,302)
Currency translation and other adjustments		-	-	-	-	-	(2,364)	(2,364)	(1,013)	(3,377)
Other comprehensive income		-	-	-	-	-	-	-	-	-
Total comprehensive income for the year		-	-	-	-	(33,270)	(15,666)	(48,936)	(2,386)	(51,322)
do Brasil S.A.	18	(9,802)	(17,627)	-	(58,974)	-	-	(86,403)	(27,698)	(114,101)
Share issue	18	15,764	55,771	-	-	-	-	71,535	-	71,535
Share capital reduction <sup>(2)</sup>	18	(24,503)	-	-	24,503	-	-	-	-	-
Employee share options	10	-	-	-	-	-	(22)	(22)	-	(22)
<b>At December 31, 2010</b>		<b>30,466</b>	<b>55,771</b>	<b>(14)</b>	<b>42,512</b>	<b>(107,890)</b>	<b>4,282</b>	<b>25,127</b>	<b>-</b>	<b>25,127</b>

- (1) The non-controlling interests that arose in the second quarter of 2009 were recognized as an equity transaction, in which the difference between the fair value of the consideration received and the net carrying value of the non-controlling interests sold was recognized as equity attributable to the shareholders of the parent company.
- (2) The reduction in share capital approved at the Extraordinary General Meeting on January 28, 2010, as part of the Demerger plan, was registered with the Register of Business Enterprises in February 2010.

## Consolidated Statement of Cash Flows

(in USD thousands)	Note	2010	2009
<b>Cash flows from operating activities</b>			
Net loss		(34,643)	(22,308)
Adjustments to reconcile net profit/(loss) to cash flows from operating			
(Income)/loss from discontinued operations	5	(22,606)	3,502
Depreciation	13	11,622	11,961
Impairment of properties and field investments	13	15,507	3,934
Loss on short term investment	7	9,201	-
Non-cash abandonment costs	21	(2,582)	56
Market adjustments, warrants, options and shares	16	(5,142)	3,351
(Gain)/loss on disposal of assets	13	1,954	(1,547)
Interest income	8	(293)	(201)
Interest expense	8	13,985	12,834
Share of loss from associates		-	99
Movements in working capital:			
Change in accounts receivable and other short-term assets		4,208	4,510
Change in accounts payable		(2,926)	(10,594)
Change in other assets and liabilities		1,290	-
Other adjustments		(6,042)	(4,798)
<b>Net cash flows from operating activities</b>		<b>(16,467)</b>	<b>799</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of acquired assets		849	1,949
Purchase of short-term investment	7	(17,656)	-
Proceeds from sale of short-term investment	7	8,455	-
Payments for properties and field investments	13	(18,753)	(30,553)
<b>Net cash flows from investing activities</b>		<b>(27,105)</b>	<b>(28,604)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issuance of shares, net	18	71,535	22,759
Proceeds from sale of non-controlling interests	6	-	30,000
Proceeds from short-term interest-bearing debt	20	-	19,082
Net Interest Received/(Paid)		(10,742)	(13,351)
Repayment of interest-bearing debt	20	(21,461)	(17,711)
<b>Net cash flows from financing activities</b>		<b>39,332</b>	<b>40,779</b>
<b>Effect of foreign currency translation adjustment on cash balances</b>		<b>496</b>	<b>-</b>
<b>Net cash provided by (used in) discontinued operations</b>		<b>(8,979)</b>	<b>(7,878)</b>
<b>Change in cash and cash equivalents during the period</b>		<b>(12,723)</b>	<b>5,096</b>
<b>Cash and cash equivalents at beginning of the period</b>		<b>37,303</b>	<b>32,207</b>
<b>Cash and cash equivalents at the end of the period</b>		<b>24,580</b>	<b>37,303</b>



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Note 1. Corporate information

Norse Energy Corp. ASA is a public limited liability company incorporated and domiciled in Norway. The address of the main office is Bryggegt. 7, 0250 Oslo, Norway. The consolidated financial statements for the year ended December 31, 2010, were approved by the Board of Directors on April 15, 2011. The principal activity of Norse Energy Corp. ASA and its subsidiaries is the acquisition, exploration and development of oil and natural gas properties in the US.

The company's shares are traded on the Oslo Stock Exchange under the ticker symbol NEC.

## Note 2. New and revised International Financial Reporting Standards (IFRSs) and interpretations

The following standards and interpretations were adopted by Norse Energy during the year:

The revised version of IFRS 3 *Business Combinations*, issued in January 2008 and implemented on January 1, 2010, covers definition, identification, accounting for and disclosure of business combinations, inclusive of business combinations achieved in stages. There has not been any material effect on Norse Energy's reported net income, assets, liabilities or equity following adoption of the revised standard on January 1, 2010.

The amended version of IAS 27 *Consolidated and Separate Financial Statements*, issued in January 2008, primarily covers amendments related to accounting for non-controlling interests and the loss of control of a subsidiary. There has not been any material effect on Norse Energy's reported net income, assets, liabilities or equity following adoption of the amendment on January 1, 2010.

IFRIC 17 *Distributions of Non-Cash Assets to Owners*, issued in November 2008, provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders. Norse Energy's financials have been effected following adoption of the interpretation on January 1, 2010.

At the date of these financial statements the following standards and interpretations were in issue but not yet effective:

IFRS 9 *Financial Instruments*, issued for the first part in November 2009 and for the second in October 2010, covers the classification and measurement of financial assets and financial liabilities, respectively. IFRS 9 will be effective from January 1, 2013. IFRS 9 also entails amendments to various other IFRSs effective from the same date. Norse Energy has not yet determined its adoption date for this standard and is still evaluating the potential impact of this standard.

The revised IAS 24 *Related Party Disclosures*, issued in November 2009, defines the term related party and establishes disclosure requirements to be applied, and will be effective from January 1, 2011. Norse Energy will comply with the revised standard and provide relevant disclosure upon adoption as applicable.

The amendment to IFRIC 14 *Prepayments of a Minimum Funding Requirement* issued in November 2009 and effective as of January 1, 2011 is not expected to have any material effect on Norse Energy's reported net income or equity on adoption.

The *Improvements to IFRS 2010* issued in May 2010 include amendments effective for annual periods beginning on or after July 1, 2010 or January 1, 2011, respectively, depending on the standard involved, and include amendments to a number of accounting standards. None of the amendments are expected to significantly impact Norse Energy's net income, equity or classifications in the balance sheet or statement of income. Where the improvements impact the content of note disclosure Norse Energy will comply with the requirements upon adoption as applicable.

The amendments to IFRS 7 *Financial Instruments: Disclosures*, issued in October 2010, cover risk exposure related to transfer of assets and will be effective for annual periods beginning after July 1, 2011. Norse Energy does not expect that the amendments to the standard will lead to significant changes in the level of disclosure currently provided and will comply with the revised standard and provide relevant disclosure upon adoption as applicable.

The amendment to IAS 32 *Classification of Rights Issues* issued in November 2009 and effective for annual periods beginning February 1, 2010 or later, IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* issued in November 2009 and effective for annual periods beginning on or after July 1, 2010, and the amendment to IAS 12 *Income Taxes* issued in December 2010 and effective for annual periods beginning January 1, 2012 are currently not relevant for Norse Energy.

### Note 3. Summary of significant accounting policies

#### Statement of compliance and of preparation

The consolidated financial statements of Norse Energy Corp. ASA and its subsidiaries ("Norse Energy" or the "Group") have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The consolidated financial statements are prepared on a historical cost basis, except for certain financial instruments which have been measured at fair value. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

#### Basis of consolidation

The consolidated financial statements include Norse Energy Corp. ASA and its subsidiaries as of December 31 for each year. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

All inter-company transactions and balances are eliminated in the consolidation.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

The purchase method of accounting is applied for business combinations. The cost of the acquisition is measured as the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for control of the acquirer plus any cost directly attributable to the business combination.

If the initial accounting for a business combination can only be determined provisionally, then provisional values are used. However, these provisional values may be adjusted within 12 months from the date of the combination.

#### Balance sheet classification

Assets and liabilities with a settlement date of more than one year from the balance sheet date are classified as non-current items. Other assets and liabilities are classified as current items.

#### Foreign currency translation

The consolidated financial statements are presented in USD, which is the functional currency of Norse Energy Corp. ASA. Functional currency is the currency of the primary economic environment in which each company operates and is normally the currency in which the company primarily generates revenues and incurs expenses.

In individual companies, transactions in foreign currencies are initially recorded in the functional currency by applying the rate of exchange prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange prevailing at the balance sheet date. Any resulting exchange differences are included in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into the functional currency using the rates of exchange as at the dates of the initial transactions.

In the consolidated financial statements, the assets and liabilities of non-USD functional currency subsidiaries, including related goodwill, are translated into USD at the rate of exchange ruling at the balance sheet date. The results and cash flows of non-USD functional currency subsidiaries are translated into USD using applicable average rates as an approximation for the exchange rates prevailing at the dates of the different transactions. Foreign exchange adjustments arising when the opening net assets and the profits for the year retained by non-USD functional currency subsidiaries are translated into USD are taken to a separate component of equity.

The foreign exchange rates applied were:

	2010		2009	
	Average rate	Reporting date rate	Average rate	Reporting date rate
Norwegian kroner/USD	6.0453	5.8564	6.3227	5.7767
Brazilian Real/USD	1.8167	1.8155	2.0249	1.7412

#### Change in functional currency in Brazil

After the production from the Coral field ceased in the fourth quarter 2008, the company's subsidiaries Norse Energy do Brasil ("NEdB") and Coplex Petroleo do Brasil ("Coplex") no longer had revenues denominated in USD. Costs for these entities were mainly denominated in Brazilian Reais. It was NEC management's view that going forward Reais would be the currency of the primary economical environment in which NEdB and Coplex operated.

Following this development, it was deemed necessary to change the functional currency of these two subsidiaries from US dollar to Brazilian Reais. The company's subsidiary Rio das Contas, with its 10% Manati ownership, remained a Reais functional currency entity. In accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates*, the change of functional currency was accounted for prospectively. All items were translated

into the new functional currency using the exchange rate at the date of the change (January 1, 2009). For non-monetary items, the resulting translated amounts were carried at their historical cost.

On June 8, 2010, all Brazilian companies were demerger from the Group.

### **Investments in affiliates**

An associate is an entity over which the Group has significant influence and is neither a subsidiary nor a joint venture interest. Significant influence is defined as the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. Significant influence is presumed to exist when the company holds an interest between 20% and 50% in another entity. However, significant influence can also exist when the company has an ownership interest less than 20% if factors such as representation on the board of directors or influence of the day-to-day decision-making in the other entity are present.

As of December 31, 2010 and 2009, the Group had an investment in an entity of USD 1.5 Million. The Group accounts for this investment using the cost basis as the Group does not have significant influence over the entity.

### **Available for sale securities**

Available for sale securities are measured at fair value, with fair value gains/losses recognized in other comprehensive income (OCI). When the AFS financial asset is impaired or sold, the amount previously recognized in OCI is reclassified to profit/loss as a reclassification adjustment.

### **Jointly controlled assets**

The Group recognizes its interests in jointly controlled field assets by accounting for its share of sales, production costs and exploration cost using the line-by-line reporting format for proportionate consolidation. The Group's share of field investments are included pro rata in the balance sheet.

### **Revenue recognition**

#### *Sale of petroleum products*

Sale of petroleum products are recognized as income using the "entitlement method". Under this method, revenue is recorded on the basis of the company's proportionate share of total natural gas sold from the affected wells. A liability is recorded for the share of the production owned by any partners or royalty owners in the property. Revenue from fields in production is recorded net of royalties.

#### *Gathering and transmission revenue*

Revenue for the transportation of natural gas is recognized based on volumes delivered in accordance with contractual terms.

#### *Energy marketing revenue*

Revenue from the sale and marketing of gas is recognized in the period in which the commodity is delivered to customers. Sales revenues and purchases related to the sale and marketing of gas are recorded gross, as the entity takes title to the gas it buys and bears the risks associated with the trading cycle such as marketing risk and credit risk.

### **Income tax**

Income tax expense represents the sum of the tax currently payable and deferred tax.

#### *Current tax*

The tax currently payable is based on taxable profit for the year.

#### *Deferred tax*

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit and is accounted for using the asset and liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in jointly controlled assets and joint ventures, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

#### *Current and deferred tax for the period*

Current and deferred tax are recognized as expense or income in the income statement, except when they relate to items recognized directly to equity, in which case the tax is also recognized directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect



is taken into account in calculating goodwill or determining the excess of Norse Energy's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

### **Earnings per share**

Earnings per share is calculated using earnings for the period divided by the weighted average number of shares outstanding during the period. When calculating the diluted earnings per share, the earnings that is due to the ordinary shareholders of the parent and the weighted average number of ordinary shares outstanding are adjusted for the dilution effects relating to warrants and employee share options.

### **Non-current assets held for sale**

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continued use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. The Group's management must be committed to the sale, and the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification. Once property, plant and equipment and intangible assets are classified as held for sale, no further depreciation will take place.

### **Goodwill**

Excess value on the purchase of operations that cannot be allocated to identifiable assets or liabilities on the acquisition date is classified in the balance sheet as goodwill. In a business combination, goodwill is measured after initial recognition at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

### **License interests, exploration assets, properties and field investments and depreciation**

The Group accounts for its oil and natural gas exploration, development and production activities under the successful efforts method of accounting. Accordingly, all costs to acquire mineral interests in oil and natural gas properties, to drill and equip exploratory wells that find proved reserves, to drill and equip development wells that have proven reserves development costs are capitalized. Such assets will be re-classified to properties and field investments when the technical feasibility and commercial viability of extracting the resources are demonstrable. Costs to drill exploratory wells that do not find proved reserves, exploratory geological and geophysical costs, and costs of carrying and retaining unproved properties are expensed.

Capitalized costs of producing oil and natural gas properties, after considering estimated residual salvage values, are depreciated and depleted by the unit-of-production method. Costs for future abandonment retirement obligations of the offshore and onshore facilities are capitalized as part of the investment and accrued as a liability. Interest costs related to financing for fields under development are being capitalized in accordance with the Group's accounting policy.

Depreciation for the natural gas gathering systems and transmission pipelines and the depreciation of furniture fixtures and equipment are computed using the straight-line method over useful life.

Expenditure on major maintenance refits or repairs comprises the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset or part of an asset is replaced and it is probable that future economic benefits associated with the item will flow to the Group, the expenditure is capitalized. Inspection and overhaul costs associated with major maintenance programs are capitalized and amortized over the period to the next inspection. All other maintenance costs are expensed as incurred.

### **Impairment**

An assessment of impairment is made for each reporting period or when there is an indication of a reduction in value relating to license interests and exploration assets and properties and field investments. If an asset's carrying amount is higher than the asset's recoverable amount, an impairment loss will be recognized in the income statement. In the case of a write-down, the fair value will be set at the highest of market value and value in use. If no market value is available, the fair value is set at the net discounted future cash flows. For the oil and gas fields, capitalized costs less accumulated depreciation are compared with the estimated discounted value of the cash flows from the fields, based on management's expectations of future reserves as well as economic and operating conditions. If the discounted value of the field is lower than the book value, the field is written down to its fair value.

Intangible assets such as capitalized exploration costs and license acquisition costs are subject to management review at least quarterly to confirm that the carrying amount does not exceed the recoverable amount. The evaluation includes technical, commercial and management reviews and the assessment of whether plans for future drilling in the license exists or whether a development decision is planned in the near future. When this is no longer the case, the costs are written off.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount, however not to an extent greater than the carrying amount that would have had, if no impairment loss had been recognized in prior years. Such reversals are recognized in the profit and loss account.

### **Leasing**

The Group is leasing certain assets which most of the risk and return associated with the ownership of the assets have not been transferred. The leases are classified as operating leases and recognized in the income statement.

### **Derivatives and hedge accounting**

Derivatives are recorded in the balance sheet at their fair value as either assets or liabilities. Typical derivatives for the company include forward sales of natural gas and oil put options. Adjustments in the fair value of the derivatives are reflected in the current period's profit and loss, unless the contract qualifies for cash flow hedge accounting.

Norse Energy's criteria for classifying a derivative as a cash-flow hedge are as follows: (1) The hedge is expected to be effective in that it counteracts changes in the fair value of an identified asset or cash flows from forthcoming transactions – a hedging efficiency within the range of 80–125% is expected, (2) the effectiveness of the hedge can be reliably measured, (3) there is adequate documentation when the hedge is entered into that the hedge is effective, (4) for cash-flow hedges, the forthcoming transaction must be probable, and (5) the hedge is evaluated regularly and has proven to be effective.

Changes in the fair value of a hedging instrument that meet the criteria for cash flow hedge accounting are taken directly to equity. The ineffective part of the hedging instrument is recognized directly in the income statement.

If the hedge of a cash flow results in an asset or liability being recognized, all former gains and losses recognized directly in equity are transferred from equity and included in the initial measurement of the asset or liability. For other cash-flow hedges, gains and losses recognized directly in equity are taken to the income statement in the same period as the cash flow which comprises the hedged object is recognized in the income statement.

If the hedge no longer meets the criteria for cash-flow hedge accounting, the hedge accounting is discontinued. The cumulative gain or loss on the hedging instrument recognized directly in equity remains separately recognized in equity until the forecast transaction occurs.

If the hedged transaction is no longer expected to occur, any previously accumulated gain or loss on the hedging instrument that has been recognized directly in equity will be recognized in profit or loss.

### **Share options granted to employees**

The Group has an equity-settled stock option program. The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award.

### **Pension expenses**

All employees in Norway and the US are organized under a defined contribution plan in which pension fund contributions are charged to profit upon payment.

### **Cash and cash equivalents**

Cash and cash equivalents consist of cash, demand deposits and highly liquid financial instruments with an original maturity of three months or less after the purchase date.

### **Receivables**

Receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short term receivables when the recognition of interest income would be immaterial.

### **Inventory**

Inventory consists of natural gas purchased in excess of natural gas sales. Throughout the period gas purchased in excess of sales is held as an asset. Sales in excess of purchases creates is represented as a liability. Inventory is valued at fair market value at each balance sheet date. Recognition of the mark to market gain/loss is recognized as a increase or decrease to gas purchases expense.

## Equity

### *Treasury shares*

The par value of treasury shares is presented in the balance sheet as a negative equity element. The purchase price in excess of the par value is recognized in other equity. Gains and losses on transactions involving Norse Energy's shares are not recognized in the income statement.

### *Costs of equity transactions*

Transaction costs relating to an equity transaction are recognized directly in equity after deducting tax expenses. Only transaction costs directly linked to the equity transaction are recognized directly in equity.

## Distributions of non-cash assets to owners

The dividend to be distributed is measured at the fair value of the assets distributed and recognized as a dividend payable when the dividend is appropriately authorized. Any difference between the fair value and book value of the assets distributed is recognized in profit & loss upon settlement of the dividend payable.

## Loans

Loans are recognized at the amount received, net of transaction costs. The loans are thereafter recognized at amortized costs using the effective interest rate method, with the difference between the net amount received and the redemption value being recognized in the income statement over the term of the loan.

The Group has bond loans with detachable warrants that are denominated in USD. The warrants are settled in NOK. The IFRS definition of an equity instrument has not been met. As a result, these warrants have been classified as a liability. The warrants are adjusted to fair value at each reporting date with a corresponding charge to the income statement.

An exchange of bonds with substantially different terms or a substantial modification of terms is accounted for as an extinguishment of the original financial liability and recognition of the new financial liability. Change of currency in the bonds is considered a substantial modification.

## Asset retirement obligation

Net present value of the estimated asset retirement obligation is recognized as soon as the obligation to dismantle and remove production assets, pipelines and other installations is incurred. The corresponding cost of the retirement obligation is capitalized as part of the field investments and depleted. The asset retirement obligation is accreted to the liability, with the accretion of the discount being classified as production costs.

## Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is recognized through profit and loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. The present obligation under onerous contracts are recognized as provisions. The Group does not currently have any onerous contracts.

## Use of estimates and judgment

Preparation of the financial statements requires Norse Energy to make estimates and apply critical judgment that affects the reported amounts of assets, liabilities, revenue and expenses, as well as disclosures of contingencies.

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

### *Exploration and leasehold costs*

The Group capitalizes the costs of drilling exploratory wells and leasehold costs pending determination on whether the wells have found proved oil and gas reserves. Judgments on whether these expenditures should remain capitalized or charged to exploration and dry hole cost in the period may materially impact the operating income. USD 23.1 Million and USD 148.9 Million were capitalized as of December 31, 2010 and 2009, respectively. USD 126.3 Million of the amount capitalized in 2009 was for Brazil.

### *Price of oil and natural gas*

The Group's sales of crude oil and natural gas are subject to price fluctuations. Any substantial fall in the price of oil and natural gas might have material effect on the value of the oil and natural gas fields.

#### Future capital expenditures and operating expenses

The Group estimates future capital expenditures and operating expenses to calculate the future cash flows from the wells for our impairment analysis. Any substantial fluctuation in the capital expenditures and operating expenses might have material effect on the value of the oil and natural gas fields.

#### *Reserves*

The Group obtains reserve reports at least annually to establish the expected production profiles for the fields in production and the expected economic lifetime of the fields. Any significant reduction in reserves might lead to a write down of field investments through impairment tests, increased future depreciation and alterations of planned capital expenditures. The carrying amounts for field investments are USD 85 Million and USD 205 Million in 2010 and 2009, respectively. USD 111 Million of the December 31, 2009 carrying amount is for field investments in Brazil.

#### *Asset Retirement Obligation*

When production from a well or a field ceases, the Group is obligated to shut in the well and remove installation from the well or field. Provisions for these costs are made based on the best available estimates from the field operator, based on today's technology and today's prices for equipment and manpower. The amount recognized is the estimated expenditures determined in alignment with the field operator, local conditions and requirements. Asset retirement obligations of USD 3.1 Million and USD 13.2 Million are recognized as of December 31, 2010 and 2009, respectively. USD 12.7 Million of the December 31, 2009 liability is for obligations in Brazil.

#### *Tax*

The ability to realize deferred tax assets is based upon estimated future taxable profits. Changes in tax legislation may influence estimates.

#### *Financial Instruments*

Valuation of unquoted financial instruments recognized at fair value, is based on estimated future cash flows and discounted with interest rates prevailing December 31, 2010.

Areas of critical judgment in applying accounting principles that have the most significant effect on the amounts recognized in the consolidated financial statements are included in the following notes:

Note 11. Income tax

Note 13. License interests and exploration assets and properties and field investments

Note 14. Goodwill and other intangible assets

Note 16. Financial instruments

Note 21. Asset retirement obligation

### **Note 4. Demerger of Norse Energy do Brasil S.A.**

On January 28, 2010 an Extraordinary General Meeting of shareholders voted in favor of demerging the Company into two distinct businesses by way of listing our Brazil subsidiary, Norse Energy do Brasil S.A. under its new name, Panoro Energy. The demerger was completed on June 7, 2010 when existing shareholders in Norse Energy received one share of Panoro Energy for every 10 shares of Norse Energy held. Panoro Energy began trading on the Oslo Stock Exchange as of June 8, 2010.

According to the guidance under IFRIC 17, the demerger was accounted for as a stock dividend to the shareholders of Norse Energy. The dividend was measured by the fair value of the assets distributed. The difference between the fair value amount and the amount recorded for financial reporting is recognized in the income statement as a gain from demerger in net income from discontinued operations. Norse Energy do Brasil S.A. was classified as a continuing operation until the successful listing and completion of demerger, which occurred on June 7, 2010.

On the demerger date, the fair value of the Norse Energy do Brasil S.A. assets was USD 86,403, which was recorded as a dividend payable to shareholders. The amount recorded for financial reporting purposes for Norse Energy do Brasil S.A. was USD 78,256. The difference between the fair market value and the amount recorded for financial reporting was recognized in the Statement of Comprehensive Income as a gain on demerger of approximately USD 8,147. The cumulative amount of the currency translation effect, net of the amount attributable to the non-controlling interest, was USD 13,302. The amount was reclassified from other comprehensive income into net income from discontinued operations.

All future transactions, costs, and revenues associated with the assets, rights, and liabilities which Panoro Energy acquired will be ascribed to Panoro Energy.

**Fair market value of Brazilian assets**

(in USD thousands, unless otherwise noted)

**June 8, 2010**

Shares outstanding	62,098
Price per share (NOK)	9.30
Fair market value of Brazilian assets (NOK)	577,514
Fx rate (NOK/USD)	6.6840
<b>Fair market value of Brazilian assets</b>	<b>86,403</b>

**Gain calculation**

(in USD thousands)

**June 8, 2010**

Fair market value of Brazilian assets	86,403
Assets of demerged activity	(289,349)
Liabilities of demerged activity	183,395
Equity interest in minority interest	27,698
<b>Gain on demerger</b>	<b>8,147</b>

**Note 5. Discontinued operations - Demerger of Norse Energy do Brasil S.A.**

As a result of the demerger on June 7, 2010 all of the Company's operations in Brazil are now considered discontinued operations in accordance with IAS 5 and IAS 21. The tables presented show the results of the Brazilian operations for all comparative periods presented in this report.

**Summary of financial data for discontinued operations**

(in USD thousands)

**2010****2009**

Revenue	16,929	34,650
Expense	8,902	25,457
EBITDA	8,027	9,193
Depreciation	3,333	6,809
Impairment	-	13,679
EBIT	4,694	(11,295)
Financial income/(expense)	(13,284)	(12,894)
Net foreign exchange gain/ (loss)	8,533	24,970
Income tax income/(expense)	1,214	(4,283)
Net income/(loss)	1,157	(3,502)
Reclassification adjustments relating to discontinued foreign	13,302	-
Gain on demerger	8,147	-
<b>Total net income/(loss) from discontinued operations</b>	<b>22,606</b>	<b>(3,502)</b>

(in USD thousands)

**2010****2009**

Net cash provided by operating activities	(5,776)	9,497
Net cash used in investing activities	477	(16,107)
Net cash used in financing activities	(3,277)	(5,861)
Effects of foreign currency on cash balances	(403)	4,593
<b>Net cash provided by/(used in) discontinued operations</b>	<b>(8,979)</b>	<b>(7,878)</b>

**Note 6. Sale of shares of a subsidiary**

In 2009, the Group sold 30% of the shares in its subsidiary Norse Energy do Brasil S.A. for a cash consideration of USD 30 Million. The buyer was Sector Speculare (Private Equity) IV, a fund managed by Sector Omega ASA. Funds managed by Sector Omega ASA are also the largest shareholder in Norse Energy Corp. ASA. The transaction valued Norse Energy do Brasil S.A. at an enterprise value of USD 210 Million. Included in this amount was debt of approximately USD 43 Million to the parent company Norse Energy Corporation ASA. As a result, the sale resulted in a minority interest of approximately USD 31.5 Million. The USD 10 Million loan from clients of Sector Asset Management early in the second quarter was repaid with proceeds from the sale of shares.

On June 7, 2010, Norse Energy do Brasil S.A. was demerged (see note 4 for further details). As a result, the Group no longer has non-controlling interests.



## Note 7. Available for sale securities

A stipulation of the demerger of Norse Energy do Brasil S.A. from the Company on June 7, 2010 was that Norse Energy do Brasil S.A., as newly formed Panoro Energy, be publicly traded on the Oslo Stock Exchange. In order to facilitate the listing of Panoro Energy, the Company subscribed for 9,299,522 shares of the initial offering of Panoro Energy in a private placement on June 8, 2010. Norse subscribed for 9,299,522 Panoro Energy shares at NOK 12.58 per share for a total investment of NOK 117,000,000.

On November 2, 2010 the Company sold its 9,299,522 shares, or 5.67% of the share capital, of Panoro Energy for NOK 5.50. The Company recorded a total loss on the investment of USD 9,201. The total net cash to the company was USD 8,455.

## Note 8. Operating segments

After Brazil was demerged, the Group has three reportable segments defined by its strategic business units. The units offer different products and are managed separately due to different technology, financial resources and marketing strategy required.

On June 7, 2010 the Company demerged Brazil E&P. Brazil E&P participated in a number of oil and natural gas exploration and production licenses located in the Santos basin outside the south-east coast of Brazil and in the Camamu-Almada basin offshore Brazil in the state of Bahia. All revenue in this segment was from sales to one customer, Petrobras.

The following summary describes the operations in each of the remaining segments:

### • Exploration and Production of natural gas in the US (USA E&P)

The US E&P operation is an independent natural gas company engaged in the acquisition, development, and operation of natural gas properties located in the Appalachian Basin. The Group operates approximately 92 wells and owns an interest in several non-operated wells. The divisions land, geological and geophysical activities are located in Buffalo, NY.

### • Gathering and Transmission of natural gas in the US (USA G&T)

Norse Energy owns and operates gathering and transmission pipelines. One pipeline system consists of about 320 miles of high pressure steel pipeline capable of gathering natural gas from over 6,500 gas wells located in western New York and northwestern Pennsylvania. The lines have delivery points into major interstate pipelines, as well as to wholesale customers.

### • Energy Marketing in the US (USA EM)

The EM segment is an established energy marketing and trading company that creates margin by cost effectively aggregating supply from Appalachian producers, marketers, and utilities. The focus of the EM segment is to add value by attracting gas flow to its proprietary pipelines and by optimizing the value of USA E&P gas production and that of the other local Appalachian producers. Customers are split between larger wholesale customers, such as utilities, and commercial and industrial consumers. This creates an effective portfolio from a risk and unit margin perspective.

The remaining of the Group's activities and intercompany eliminations are shown in the "corporate and eliminations" column. These activities mainly consist of funding, administration and other corporate functions as deemed necessary. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

## 2010

(in USD thousands)	USA E&P	USA G&T	USA EM	Corporate and eliminations	Consolidated
Revenues - external	13,494	3,081	87,171	46	103,791
Revenues - w ithin the group	-	120	10,695	(10,815)	-
<b>Total revenue</b>	<b>13,494</b>	<b>3,201</b>	<b>97,866</b>	<b>(10,769)</b>	<b>103,791</b>
<b>EBITDA</b>	<b>(2,737)</b>	<b>1,336</b>	<b>1,720</b>	<b>(12,487)</b>	<b>(12,167)</b>
Interest income	8	13	69	203	293
Interest expense	(816)	(588)	(5)	(12,576)	(13,985)
Foreign exchange gain/ (loss)	-	-	-	474	474
Depreciation, amortization and impairment	(25,770)	(923)	(185)	(251)	(27,128)
Other financial items gains/ (losses)	(949)	-	2	(4,138)	(5,085)
Income tax	6,359	(414)	289	(5,884)	350
<b>Profit / (loss) after tax</b>	<b>(23,905)</b>	<b>(576)</b>	<b>1,891</b>	<b>(34,659)</b>	<b>(57,249)</b>
<b>Material non-cash items</b>					
Impairment and non-cash items of dry hole & exploration	15,507	-	-	-	15,507
Depreciation	10,264	923	185	251	11,622
Warrants effect	-	-	-	(5,891)	(5,891)
<b>Total assets</b>	<b>113,238</b>	<b>17,319</b>	<b>24,194</b>	<b>8,118</b>	<b>162,869</b>
<b>Total liabilities</b>	<b>69,495</b>	<b>12,826</b>	<b>8,811</b>	<b>46,610</b>	<b>137,742</b>

## 2009

(in USD thousands)	Brazil E&P (1)	USA E&P	USA G&T	USA EM	Corporate and eliminations	Consolidated
Revenues - external	-	15,257	3,767	96,338	(577)	114,785
Revenues - w ithin the group	-	390	535	8,841	(9,766)	-
<b>Total revenue</b>	<b>-</b>	<b>15,647</b>	<b>4,302</b>	<b>105,179</b>	<b>(10,343)</b>	<b>114,785</b>
<b>EBITDA</b>	<b>-</b>	<b>3,432</b>	<b>2,160</b>	<b>2,720</b>	<b>(10,087)</b>	<b>(1,775)</b>
Interest income	-	14	13	93	81	201
Interest expense	-	(918)	(621)	(3)	(11,292)	(12,834)
Foreign exchange gain/ -loss	-	-	-	-	(321)	(321)
Depreciation, amortization and impairment	-	(11,767)	(1,339)	(62)	(426)	(13,594)
Share of loss from associates and joint ventures	-	(99)	-	-	-	(99)
Other financial items gains/ -losses	-	(122)	10	-	408	296
Income tax	-	1,087	(2,010)	(1,027)	11,269	9,319
<b>Profit / -loss after tax</b>	<b>-</b>	<b>(8,373)</b>	<b>(1,787)</b>	<b>1,721</b>	<b>(10,367)</b>	<b>(18,806)</b>
<b>Material non-cash items</b>						
Impairment and non-cash items of dry hole & exploration	-	3,584	351	-	42	3,977
Depreciation	-	10,528	988	62	383	11,961
Warrants effect	-	-	-	-	(707)	(707)
<b>Total assets</b>	<b>292,889</b>	<b>118,825</b>	<b>18,157</b>	<b>32,996</b>	<b>6,817</b>	<b>469,684</b>
<b>Total liabilities</b>	<b>193,738</b>	<b>80,557</b>	<b>17,403</b>	<b>19,861</b>	<b>39,091</b>	<b>350,650</b>

(1) Brazil E&P profit/loss is not presented as it is included in discontinued operations in the Consolidated statement of comprehensive income at December 31, 2009. Brazil E&P assets and liabilities are presented as they are included in the Consolidated statement of financial position at December 31, 2009.

## Geographical segment

(in USD thousands)	Brazil		North-America		Corporate		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
Revenues - external	-	-	103,745	115,362	46	(577)	103,791	114,785
Non-current assets (2)	-	240,406	116,517	125,035	86	82	116,603	65,523

(2) Non-current assets include properties and field investments and intangible assets (excluding financial instruments, deferred tax assets).

<b>Revenue from major products and services</b>		
(in USD thousands)	<b>2010</b>	<b>2009</b>
Natural gas trading	87,592	98,219
Oil sales	35	-
Natural gas sales	12,550	14,067
Gathering and transmission income	3,060	3,599
Mark-to-market adjustments and other income	555	(1,100)
<b>Total</b>	<b>103,791</b>	<b>114,785</b>

## Note 9. General and administrative expenses

### Employee benefit expenses

General and administrative expenses include wages, employers' contribution and other compensation as detailed below:

(in USD thousands)	<b>2010</b>	<b>2009</b>
Wages	8,621	9,338
Employer's contribution	964	1,632
Other compensation	1,770	1,821
<b>Total</b>	<b>11,355</b>	<b>12,791</b>

<b>Number of employees</b>	<b>2010</b>	<b>2009</b>
Norway	1	4
USA	70	68
Brazil	-	13
Canada	1	1
<b>Total</b>	<b>72</b>	<b>86</b>

### Board of Directors statement on remuneration of executives

#### *Statement for the current year (2011)*

In accordance with the Norwegian Public Limited Liability Companies Act §6-16a, the Board of Directors must prepare a statement on remuneration of executives.

The Board of Directors has appointed a Compensation Committee that determines the compensation structure and levels of the company's CEO. Remuneration for the CEO consists of both fixed and variable elements. In addition to a fixed salary, the CEO has been granted stock options in Norse Energy. The CEO is also entitled to one year of severance payment.

Norse Energy has established a compensation program for executive management that reflects the responsibility and duties as management of an international oil and gas company and at the same time contributes to add value for the company's shareholders. The goal for the Board of Directors has been to establish a level of remuneration that is competitive both in domestic and international terms to ensure that the Group is an attractive employer that can obtain a qualified workforce.

Remuneration for executive management consists of both fixed and variable elements. The fixed elements consist of salaries and other benefits (free phone, electronic communication, newspapers, car allowance, etc.), while the variable elements consist of a performance based bonus arrangement and a stock option scheme that was approved by the Annual General Meeting (AGM) in 2006. The annual bonus will be determined based on the achievement of certain pre-set targets.

The 2008 AGM approved a new stock option scheme for the Group's key employees and consultants with a limit of eight Million new shares with a par value NOK 0.88. The program corresponds with the share option program approved in 2006.

The Group has a defined contribution plan for the employees in the US and Norway. Both the CEO and CFO participate in this plan.

The remuneration of the CEO and other executive management in 2010 was based on the same general principals as disclosed above for the current year except the former CEO was entitled to two years severance payment. As of December 31, 2010, USD 147 Thousand severance had been paid to the former CEO and USD 1.5 Million remained accrued.

### Management remuneration

Executive management is considered to consist of the CEO, CFO and Head of Brazil operations (eliminated after demerger of Norse Energy do Brasil S.A. in 2010). The CEO & CFO have an agreement of one year's salary in case of resignation.

Executive management remuneration is summarized below:

(in USD thousands)						
2010	Salary	Bonus	Benefits	Pension costs	Change in value of options	Total
Mark Dice, CEO*	420	-	8	7	-	435
Richard Boughrum, CFO**	337	-	13	-	-	350
Øivind Risberg, Former CEO	534	175	19	7	82	817
Anders Kapstad, Former CFO	595	-	18	-	-	613
<b>Total</b>	<b>1,886</b>	<b>175</b>	<b>57</b>	<b>15</b>	<b>82</b>	<b>2,215</b>

\*Start date: June 8, 2009, Replaced Mr. Risberg in September 2010

\*\*Start date: November 2, 2009. Replaced Mr. Kapstad in June 2010

2009	Salary	Bonus	Benefits	Pension costs	Change in value of options	Total
Øivind Risberg, CEO	520	200	91	7	31	849
Anders Kapstad, CFO	228	102	22	45	28	425
Kjetil Solbrække, Head of Brazilian operations	476	94	-	-	-	570
<b>Total</b>	<b>1,224</b>	<b>396</b>	<b>113</b>	<b>52</b>	<b>59</b>	<b>1,844</b>

Remuneration to members of the Board of Directors is summarized below:

(in USD thousands)	2010	2009
Dag Erik Rasmussen, Chairman <sup>(1)</sup>	54	-
Petter Mannsverk Andresen, former Chairman <sup>(1)</sup>	-	57
Other board members	186	96
<b>Total</b>	<b>240</b>	<b>253</b>

(1) On May 19, 2009, Mr. Rasmussen was elected Chairman replacing Mr. Andresen.

No loans have been given to, or guarantees given on the behalf of, any members of the current Management Group, the Board or other elected corporate bodies. The Group has a long-term note receivable from the Former CEO of USD 50 Thousand. The note has no stated maturity date, is due on demand, and bears an interest rate of prime plus 0.5%. The note was paid off in 2011 upon final settlement of severance with the Former CEO.

During 2009, the Company's Brazilian subsidiaries retained Kathleen Arthur, a Board member of the Company, as a consultant. Total remuneration in 2009 was approximately CAD 100,000, and in 2010 Ms. Arthur had a monthly retainer of CAD 30,000.

### Auditor's remuneration

Deloitte serves as the Group's auditors. Fees, excluding VAT, to the auditors are included in general and administrative expense and are shown below:

(in USD thousands)	2010	2009
<b>Deloitte</b>		
Statutory audit and audit related services	690	721
Tax services	18	126
Other	23	23
<b>Total</b>	<b>731</b>	<b>870</b>

## Note 10. Share-based payment plans

Norse Energy has an option program consisting of 18 Million shares for key employees. As of December 31, 2010, 16.2 Million options have been granted (1.1 Million were granted during 2010) of which 15.5 Million options are exercisable. As a result of the demerger on June 8, 2010, there was a change in ownership and all option outstanding on that date became exercisable. In addition, there was a repurchase of vested options and a repricing of remaining options by increasing the number of options held by 40%. All options under the plan will be settled in shares.

Options outstanding as of December 31, 2010, are as follows:

(in USD thousand, unless otherwise indicated)

Name	# of shares	Option price in NOK	Exercise period	Estimated value
Mark Dice	4,166,667	2.10	July 3, 2011-July 3, 2014	610,870
Richard Boughrum	1,666,667	2.38	November 2, 2011-November 2, 2014	304,248
Øivind Risberg	4,000,000	2.10-2.85	June 1, 2007-May 31, 2012	768,441
Other employees	6,389,999	2.01-2.85	June 1, 2007 - June 8, 2015	1,036,646
<b>Total</b>	<b>16,223,333</b>			<b>2,720,206</b>

The fair value of the options is estimated at grant date by an independent third party expert using the Black-Scholes – Merton option pricing model. The exercise price of the options is equal to the market price of the shares at the grant date plus eight percent, and the volatility of the warrants that the Group issued and listed on the Oslo Stock Exchange in July 2006. The expected exercise date is set to the contractual vesting period of 2 years. Risk free interest rate used is 2.44% - 5.26% calculated by using rates from Norges Bank at the grant (bonds and certificates) based on the expected term of the option being valued. The implied volatility used in the calculation is 35.7% - 74.5%, and no dividends are incorporated.

The options are expensed over the vesting period, which was USD 0.9 Million and USD 0.5 Million in 2010 and 2009, respectively. The stock options outstanding at the end of 2010 had an exercise price range of NOK 2.10 – NOK 2.85 and a weighted average remaining contractual life of 953 day and 1,156 days in 2010 and 2009, respectively.

No options were exercised during 2010. Should an employee decide to terminate their employment prior to the start of the exercising period, the options shall expire without any further compensation. As of December 31, 2010, thirty employees have been granted options. Refer to note 9 for further details regarding the Group's options programs.

Reconciliation of changes in options outstanding, are as follows:

<b>Options outstanding at January 1, 2010</b>	<b>13,415,000</b>
Changes during the period:	
Quantity repriced due to demerger	2,483,333
Granted during the period	1,050,000
Forfeited during the period	(725,000)
Exercised during the period	-
<b>Outstanding at December 31, 2010</b>	<b>16,223,333</b>

## Note 11. Income tax

### Income tax expense for the year

(in USD thousands)	2010	2009
<u>Norway</u>		
Tax Payable	-	-
Change in deferred tax	-	-
<u>USA</u>		
Tax Payable	(125)	-
Change in deferred tax	(225)	(9,319)
<u>Canada</u>		
Tax Payable	-	-
Change in deferred tax	-	-
<b>Net income tax expense (benefit)</b>	<b>(350)</b>	<b>(9,319)</b>

### Deferred income tax relates to the following:

(in USD thousands)	Norway	US	Total
Losses to carry forward	23,883	32,503	56,386
Current assets	-	259	259
Current liabilities	37	(1,355)	(1,318)
Non-current assets	(2)	9,394	9,392
Non-current liabilities	4,485	(28,802)	(24,317)
Deferred tax assets not recognized	(28,403)	(11,999)	(40,402)
<b>Net deferred tax assets (liabilities) as of December 31, 2010</b>	<b>-</b>	<b>-</b>	<b>-</b>

(in USD thousands)	Norway	Brazil	US	Total
Losses to carry forward	42,765	11,544	25,967	80,276
Current assets	-	-	(1,346)	(1,346)
Current liabilities	38	-	421	459
Non-current assets	3	53,485	(31,874)	21,614
Non-current liabilities	236	(42,465)	6,609	(35,620)
Deferred tax assets not recognized	(43,042)	-	-	(43,042)
<b>Net deferred tax assets/ (liabilities) as of December 31, 2009</b>	<b>-</b>	<b>22,564</b>	<b>(223)</b>	<b>22,341</b>

Net deferred tax assets are recognized based on an assessment of the Group's expected future taxable income.

Reconciliation of total income tax expense during the year to the income tax expense at the nominal tax rate of 34%:

(in USD thousands)	2010	2009
Loss before tax	(57,599)	(35,114)
Income tax benefit at nominal income tax rate of 34%	(19,584)	(11,939)
Non-deductable expenses	5,761	(45)
Tax included in impairment of asset calculation	-	(232)
Effect of previous unrecognized and used tax losses now recognized as deferred tax assets	-	(4,956)
Adjustment to previous years	(140)	2,358
Tax expense impact of nominal tax rate other than 34% <sup>(1)</sup>	(931)	189
Tax losses for which no deferred tax asset was recognized	14,666	4,340
Other effects	(123)	966
<b>Income tax expense</b>	<b>(350)</b>	<b>(9,319)</b>

(1) Taxes with nominal tax rates other than 34% relates to corporate tax rate in Norway and federal taxes in the US with tax rate different from state taxes.

The Group has net operating loss carryforwards for income tax reporting purposes as depicted on the schedule below. The net tax loss carry forwards in Norway have unlimited duration and are related to the parent company, Norse Energy Corp. ASA. The related deferred tax asset has not been recognized due to the uncertainty of



whether any of the tax loss carry forwards can be utilized. In the US, the tax loss carryforwards have a limited duration of 20 years. The prevailing tax authority restricts the utilization of the net operating loss carry forwards in the event of a change in control. The related deferred tax asset has not been recognized due to the uncertainty of whether any of the tax loss carry forwards can be utilized.

(in USD thousands)

<b>Losses to carry forward</b>	<b>Norway</b>	<b>US</b>	<b>Total</b>
2011	-	-	-
2012	-	-	-
2013	-	-	-
2014	-	-	-
2015	-	-	-
2016	-	-	-
After 2016	-	83,442	83,442
No expiration date	85,296	-	85,296
<b>Total tax loss carried forward</b>	<b>85,296</b>	<b>83,442</b>	<b>168,738</b>

## Note 12. Earnings per share and diluted earnings per share

The Group has no potential dilutive ordinary shares as of December 31, 2010 and 2009.

(in USD thousands, unless otherwise indicated)

	<b>2010</b>	<b>2009</b>
Earnings from continuing operations	(57,249)	(26,673)
Earnings from discontinued operations attributable to equity holders of the parent	23,979	330
Weighted average number of shares outstanding	486,355,874	364,086,269
Basic and diluted earnings per share from continuing operations	(0.12)	(0.07)
Basic and diluted earnings per share from discontinued operations	0.05	0.00
The earnings used in the calculation of basic and diluted earnings per share from discontinued operations are as follows:		
Net loss from discontinued operations	22,606	(3,502)
Less: Loss attributable to non-controlling interests	(1,373)	(3,832)
Earnings from discontinued operations attributable to equity holders of the parent	23,979	330

The weighted average number of shares outstanding has been reduced with 108,605 treasury shares.

March 24, 2011, Norse Energy completed a private placement for a total of 210,000,000 new shares. There is also a proposal to offer up to 37,500,000 new shares to existing shareholders that were not offered to participate in the initial offering. See note 29 for more details on this transaction.

### Diluted earnings per share

When calculating the diluted earnings per share, the weighted average number of shares outstanding is normally adjusted for all dilutive effects relating to the Group's warrants and employee stock options. As of December 31, 2010, 16,223,333 options are outstanding and a total of 130,430,000 warrants are outstanding.

The warrants are not considered to have a dilutive effect as they were out-of-the money compared to the average price in 2010. Further, since the Group incurred a net loss for the years 2010 and 2009, the options and warrants have an anti-dilutive effect and are therefore not considered when calculating diluted earnings per share.

For details regarding the employee stock option plans refer to note 10. Refer to note 20 for details relating to the bond loans with detachable warrants.

## Note 13. License interests and exploration assets and properties and field investments

### Licenses and exploration assets

(in USD thousands)	Brazil	US	Total
<b>Acquisition cost at January 1, 2010</b>	<b>182,955</b>	<b>25,126</b>	<b>208,081</b>
Transfer to field investments and equipment	-	(1,433)	(1,433)
Investments	917	3,596	4,513
Disposals	-	(1,755)	(1,755)
Foreign currency translation	(5,488)	-	(5,488)
Demerger of Norse Energy do Brasil S.A.	(178,384)	-	(178,384)
<b>Acquisition cost at December 31, 2010</b>	<b>-</b>	<b>25,534</b>	<b>25,534</b>
Accumulated impairment/ exploration costs charged to profit	(64,493)	(2,442)	(66,935)
Foreign currency translation	7,838	-	7,838
Demerger of Norse Energy do Brasil S.A.	56,655	-	56,655
<b>Net carrying value at December 31, 2010</b>	<b>-</b>	<b>23,092</b>	<b>23,092</b>

### Current year impairment/exploration costs previously

(in USD thousands)	Brazil	US	Total
<b>Acquisition cost at January 1, 2009</b>	<b>137,085</b>	<b>32,627</b>	<b>169,712</b>
Transfer to field investments and equipment	-	(16,408)	(16,408)
Investments	10,896	8,907	19,803
Foreign currency translation	34,974	-	34,974
<b>Acquisition cost at December 31, 2009</b>	<b>182,955</b>	<b>25,126</b>	<b>208,081</b>
Accumulated impairment/ exploration costs charged to profit	(64,493)	(2,442)	(66,935)
Foreign currency translation	7,838	-	7,838
<b>Net carrying value at December 31, 2009</b>	<b>126,300</b>	<b>22,684</b>	<b>148,984</b>
Current year impairment/exploration costs previously capitalized	(19,800)	(2,442)	(22,242)

### Production assets

(in USD thousands)	US natural gas properties	US pipelines	Manati	Coral	Total
<b>Acquisition cost at January 1, 2010</b>	<b>77,483</b>	<b>43,583</b>	<b>132,363</b>	<b>71,240</b>	<b>324,669</b>
Investments	14,183	3,131	-	-	17,314
Reclassification of assets	1,370	(43)	-	-	1,327
Disposals	(937)	(515)	-	-	(1,452)
Foreign currency translation	-	-	(5,924)	-	(5,924)
Demerger of Norse Energy do Brasil S.A.	-	-	(126,439)	(71,240)	(197,679)
<b>Acquisition cost at December 31, 2010</b>	<b>92,100</b>	<b>46,156</b>	<b>-</b>	<b>-</b>	<b>138,255</b>
<b>Accumulated depreciation and impairment at January 1, 2010</b>	<b>(17,489)</b>	<b>(9,736)</b>	<b>(21,064)</b>	<b>(71,240)</b>	<b>(119,529)</b>
Impairment losses recognized in profit and loss	(15,507)	-	-	-	(15,507)
Depreciation expense	(9,145)	(1,575)	(3,318)	-	(14,038)
Disposals	-	408	-	-	408
Foreign currency translation	-	-	-	-	-
Demerger of Norse Energy do Brasil S.A.	-	-	24,382	71,240	95,622
<b>Accumulated depreciation and impairment at December 31,</b>	<b>(42,141)</b>	<b>(10,903)</b>	<b>-</b>	<b>-</b>	<b>(53,044)</b>
<b>Net carrying value at December 31, 2010</b>	<b>49,959</b>	<b>35,253</b>	<b>-</b>	<b>-</b>	<b>85,212</b>

(in USD thousands)	US natural gas properties	US pipelines	Manati	Coral	Total
<b>Acquisition cost at January 1, 2009</b>	<b>48,494</b>	<b>35,991</b>	<b>94,916</b>	<b>71,240</b>	<b>250,641</b>
Investments	12,719	7,592	5,201	-	25,512
Reclassification of assets	16,408	-	-	-	16,408
Disposals	(138)	-	-	-	(138)
Foreign currency translation	-	-	32,246	-	32,246
<b>Acquisition cost at December 31, 2009</b>	<b>77,483</b>	<b>43,583</b>	<b>132,363</b>	<b>71,240</b>	<b>324,669</b>
<b>Accumulated depreciation and impairment at January 1, 2009</b>	<b>(8,017)</b>	<b>(7,890)</b>	<b>(13,276)</b>	<b>(71,240)</b>	<b>(100,423)</b>
Impairment losses recognized in profit and loss	-	(351)	-	-	(351)
Depreciation expense	(9,472)	(1,495)	(6,779)	-	(17,746)
Foreign currency translation	-	-	(1,009)	-	(1,009)
<b>Accumulated depreciation and impairment at December 31,</b>	<b>(17,489)</b>	<b>(9,736)</b>	<b>(21,064)</b>	<b>(71,240)</b>	<b>(119,529)</b>
<b>Net carrying value at December 31, 2009</b>	<b>59,994</b>	<b>33,847</b>	<b>111,299</b>	<b>-</b>	<b>205,140</b>

## Furniture fixtures and equipment

(in USD thousands)	2010	2009
<b>Acquisition cost at January 1</b>	10,398	9,056
Investments	720	1,344
Disposals	(3,042)	(923)
Foreign currency translation	(65)	921
Demerger of Norse Energy do Brasil S.A.	(2,028)	-
<b>Acquisition cost at December 31</b>	<b>5,983</b>	<b>10,398</b>
<b>Accumulated depreciation and impairment at January 1</b>	(4,718)	(2,804)
Depreciation expense	(939)	(1,258)
Impairment	-	(1,228)
Disposals	1,367	703
Foreign currency translation	-	(131)
Demerger of Norse Energy do Brasil S.A.	928	-
<b>Accumulated depreciation and impairment at December 31</b>	<b>(3,362)</b>	<b>(4,718)</b>
<b>Net carrying value at December 31</b>	<b>2,621</b>	<b>5,680</b>

### Depreciation method / rates

Depreciation for the gathering systems and the transmission lines are computed using the straight-line method over a twenty and thirty-year useful life, respectively. Field investments are depreciated over the life of the field using the unit-of-production method.

Other investments in equipment	Straight-line depreciation	Useful life
Office equipment	10.00 - 33.33 %	3 - 10 years
Computer equipment	20.00 - 33.33 %	3 - 5 years
Buildings	2.50 - 4.00 %	25 - 40 years

### Capitalization of Borrowing Costs

In 2010, USD 316 of borrowing costs were capitalized that were directly attributable to the construction of production assets. A weighted average of all the Group's borrowing rates, 9.04%, was used to determine the amount to be capitalized. No borrowing costs were capitalized in 2009 as they were considered immaterial.

### Impairment

According to IAS 36 & IFRS 6, assets should be reviewed and tested for impairment when significant events or a change in circumstances indicate that the net book value of certain oil and gas properties may not be recoverable. The Company has evaluated each group of assets and qualitatively assessed the need for impairment based on type, ability to convert to cash, and expected use.

The Company has identified two distinct cash generating units (CGU), Moon and all other minor interests, within the E&P segment. The Moon CGU includes the operated wells in Central New York, because the natural gas is comingled and sold through a common pipeline system providing transportation to different sales points. Therefore, the assets are not separable from each other when assessing the recoverable costs. The company also has other minor interest in non-operated wells mostly in Oklahoma.

Due to the decline in gas prices, there was an indication of impairment in the third quarter of 2010. The net present value of the assets was determined on a basis of their value in use. When estimating the net present value, the Company used a discount rate of 10.5% for the period ending September 30, 2010. This is a pre-tax discount rate and is calculated on a pre-tax weighted average cost of capital (WACC). The net book value for the E&P segment's production assets was USD 74,356 and the discounted cash flow balance was USD 58,849. As a result there was an impairment loss of USD 15,507 recognized by the E&P segment in the third quarter with USD 14,718 allocated to Moon and USD 789 to the other minor interests.

In the third quarter, the impairment charge was primarily related to the falling NYMEX prices used in the cash flow valuation process. The valuation is based upon the future NYMEX Strip Pricing plus the Appalachian premium at an average of USD 4.25/Mcf in 2010, USD 4.78/Mcf in 2011, USD 5.34/Mcf in 2012, USD 5.62/Mcf in 2013, USD 5.77/Mcf in 2014, and USD 5.88/Mcf in 2015. The market prices have a significant impact on the overall valuation of the reserve base discounted cash flows, as does capital expenditures. The tables below show the change in the discounted cash flows based on different sensitivities:

Sensitivity to change in capital expenditure per well:

(in USD thousands)	+100K per well	-100K per well
Change in discounted cash flows	(6,041)	6,041

Sensitivity to change in future price curve:

(in USD thousands)	+\$0.50	+\$1.00	-\$0.50	-\$1.00
Change in discounted cash flows	11,270	22,547	(11,254)	(22,487)

Sensitivity to change in WACC:

(in USD thousands)	+0.50%	+1.00%	-0.50%	-1.00%
Change in discounted cash flows	(1,616)	(3,179)	1,672	3,401

Assets were tested for impairment again in the fourth quarter and no further impairment was deemed necessary. Refer to note 22 for details on reserves (unaudited figures).

## Note 14. Goodwill and other intangible assets

(in USD thousands)	Goodwill	Other intangible assets	Total
Acquisition cost at January 1, 2010	5,643	238	5,881
Investments	-	-	-
<b>Acquisition cost at December 31, 2010</b>	<b>5,643</b>	<b>238</b>	<b>5,881</b>
Accumulated depreciation and impairment at January 1, 2010	-	(162)	(162)
Amortization expense	-	(41)	(41)
<b>Accumulated amortization and impairment at December 31, 2010</b>	<b>-</b>	<b>(203)</b>	<b>(203)</b>
<b>Net book value December 31, 2010</b>	<b>5,643</b>	<b>35</b>	<b>5,678</b>

(in USD thousands)	Goodwill	Other intangible assets	Total
Acquisition cost at January 1, 2009	5,643	238	5,881
Investments	-	-	-
<b>Acquisition cost at December 31, 2009</b>	<b>5,643</b>	<b>238</b>	<b>5,881</b>
Accumulated depreciation and impairment at January 1, 2009	-	(127)	(127)
Amortization expense	-	(35)	(35)
<b>Accumulated amortization and impairment at December 31, 2009</b>	<b>-</b>	<b>(162)</b>	<b>(162)</b>
<b>Net book value December 31, 2009</b>	<b>5,643</b>	<b>76</b>	<b>5,719</b>

In 2006, Norse Energy recognized goodwill of USD 5.6 Million and other intangible assets of USD 0.2 Million after finalizing the purchase analysis of the acquisition of Mid American Natural Resources which operates as the Group's energy marketing segment. The goodwill is assumed to have duration for as long as Mid American Natural Resource's operations are profitable. The other intangible assets are being amortized over 7 years using straight line amortization. This amortization is included in the depreciation line item of the statement of comprehensive income.

The Group performs an assessment of whether or not impairment indicators exist for intangible assets at the end of the reporting period. If such indicators are deemed present, the Group performs an impairment test of the assets. For 2010, no impairment indicators were identified as the financial results of Mid American Natural Resource's operations are satisfactory and justify the value of the goodwill and other intangible assets.

## Note 15. Financial risk management

### Overview

The activities of the Group are exposed to various financial risks such as: liquidity risk, credit risk and market risk. The latter includes foreign exchange risk, interest rate risk, price risk and energy marketing activity risk. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potentially adverse effects on financial performance – more specifically the risk associated with our floating interest loans and the price for oil and gas. Derivative financial instruments are used to hedge such risk exposures.

Financial risk management is carried out by the Group's Management team under policies approved by the Board of Directors. The Board of Directors reviews these written principles for overall risk management and the policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, as well as investment of excess liquidity.

This note presents information about the Group's exposure to the risks mentioned above and the objectives and policies for measuring and managing such risks.

### Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its obligations as they fall due. Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, the availability of funding from an adequate amount of committed credit facilities, raising new equity, and the ability to close out market positions. In addition, management obtains funding through reserve based lending in the US and assets based lending in the US.

Note 16 sets out the maturity profile of the financial liabilities of the Group based on contractual undiscounted payments.

The Norwegian Public Limited Liabilities Companies Act sections 3-4 and 3-5 define the minimum equity requirements. As a general rule, the law requires that the Company has equity that is considered proper, and that the level should reflect the Company's risk-profile and the scope of the Company's activities. It is the Norse Energy's Board of Directors who sets the guidelines management is monitoring in this respect. In addition to the general requirement of the law, the Group has entered into loan agreements where there are covenants with respect to the levels of capital. Norse Energy Holdings, Inc. must maintain an equity to capital employed ratio of at least 30% at all times after March 31, 2011. Capital employed is defined as equity plus the aggregate book value of gross interest bearing debt, including any zero coupon loans and other financial instruments with the commercial effect of borrowing (i.e. guarantees and leasing commitments). Norse Energy Holdings, Inc. must also maintain a minimum equity of USD 36 Million at all times after March 31, 2011.

### Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions.

For investments in securities in banks and financial institutions, only independently rated parties with a minimum rating of "A" are accepted. Any change of financial institutions (except minor issues) are approved by the CFO.

If our customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control in the operating units assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The utilization of credit limits is regularly monitored and kept within approved budgets.

The credit risks for the sale of natural gas, and sale and purchase of natural gas by the subsidiary Mid American Natural Resources and from the US G&T segment is considered to be low as historically the amount of default of receivables has been very low. The Group has secured significant guarantees from customers of Mid American Natural Resources.

Note 16 sets out the Group's maximum risk exposure.

### Market risk

#### *Foreign exchange risk*

Norse Energy operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Norwegian Kroner (NOK) and the US dollar (USD). Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the entity's functional currency. The Group's foreign exchange risk is considered to be low as the amount of future commercial transactions and assets and liabilities denominated in NOK is very small.

#### *Interest rate risk*

Norse Energy has interest rate risk exposure arising from changes in USD and NOK interest rates on our long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed-rates expose the Group to fair value interest rate risk.

### Commodity price risk

The nature of the Group's sale of oil and natural gas commodities are subject to considerable price volatility over which we hold little control. A material decline in commodity prices could result in a decrease in our production revenue. To manage this risk, we strive to keep a balance between forward and spot market sales.

The natural gas production is therefore deemed acceptable to use fixed price forward sales contracts to secure certain profits level. These forward contracts can be either physical or financial derivative based. Historically, the Group has been using both the physical and financial markets to secure some of its future production. Currently, any hedging is subject to Board of Directors approval.

### Marketing activity risk

The US EM segment generates a margin through sales and purchases of physical volumes of natural gas. The majority of the fixed price purchase-contracts, both financial and physical, are balanced with fixed price sales-contracts, financial or physical.

## Note 16. Financial instruments

### Overview

The Group's policy is to monitor the risk associated with its floating interest loans, currency loans, the price for oil and gas, to assess the necessity to enter into financial instruments to limit risk and maximize income. As such, the Group has entered into various hedging transactions. Refer to note 15 for details on the Group's financial risk management policy.

The table below sets forth a comparison of carrying amounts and fair values of all of the company's financial instruments by category.

(in USD thousands)	Carrying amount		Fair Value				Fair Value
Financial Assets	2010	2009	2010	Level 1	Level 2	Level 3	2009
Cash	24,580	37,303	24,580	24,580	-	-	37,303
Receivables:							
Trade accounts receivable (loans and receivables)	9,520	19,517	9,520	9,520	-	-	19,517
Other derivatives (fair value through P/L)	4,289	5,403	4,289	4,289	-	-	5,403
Other short-term receivables (loans and receivables)	1,338	10,387	1,338	1,338	-	-	10,387
Other non-current assets:							
Other non-current assets (loans and receivables)	1,006	1,972	1,006	1,006	-	-	1,972
<b>Total</b>	<b>40,734</b>	<b>74,582</b>	<b>40,734</b>	<b>40,734</b>	<b>-</b>	<b>-</b>	<b>74,582</b>
<b>Financial Liabilities</b>							
Trade accounts payable and other current liabilities	(24,216)	(62,911)	(24,216)	(24,216)	-	-	(62,911)
Interest bearing loans and borrowings (other liabilities):							
NEC01 unsecured bond loan (other liabilities)*	N/A	(48,587)	N/A	-	-	-	(45,113)
NEC02 secured bond loan (other liabilities)**	(56,218)	(68,165)	(57,534)	(57,534)	-	-	(57,750)
NEC03 secured bond loan (other liabilities)**	(7,075)	(8,778)	(7,181)	-	(7,181)	-	(8,096)
NEC04 secured bond loan (other liabilities)**	(3,632)	(4,642)	(3,527)	-	(3,527)	-	(3,552)
NEC05 secured bond loan (other liabilities)**	(13,996)	(17,710)	(13,617)	-	(13,617)	-	(13,528)
Floating rate borrowings (other liabilities)	(14,134)	(89,374)	(14,134)	(14,134)	-	-	(89,374)
Other fixed rate borrowings (other liabilities)	(4,233)	(15,654)	(3,736)	-	-	(3,736)	(14,503)
NEC J - Warrants (fair value through P/L)	(2,177)	(11,295)	(2,177)	(2,177)	-	-	(11,295)
NEC K - Warrants (fair value through P/L)	(7,099)	N/A	(7,099)	(7,099)	-	-	N/A
Own bonds in NEC02 (fair value through P/L)	983	1,030	983	983	-	-	1,030
Other derivatives (fair value through P/L)	(1,878)	(1,871)	(1,878)	(1,878)	-	-	(1,871)
<b>Total</b>	<b>(133,675)</b>	<b>(327,957)</b>	<b>(134,116)</b>	<b>(106,055)</b>	<b>(24,325)</b>	<b>(3,736)</b>	<b>(306,963)</b>

\*NEC 01 was assumed by Norse Energy do Brasil S.A. without recourse as part of the demerger in 2010.

\*\*Became secured upon restructuring in June 2010.

Financial Assets	P&L impact	
	2010	2009
Other derivatives	3,223	(3,567)
Currency Swaps	-	1,859
Own bonds	188	(109)
<b>Financial Liabilities</b>		
NEC J - Warrants	5,140	707
NEC K - Warrants	750	-

### Determination of fair value

The fair value of financial assets classified as "financial assets at fair value through profit or loss" is determined by reference to published price quotations in an active market. For unquoted financial assets, the fair value has been estimated using alternative valuation techniques.



The fair value of currency swaps is determined by the present value of future cash flows. For all the above mentioned derivatives, the fair value is confirmed by the financial institution with which the Group has entered into the contracts.

The NEC J and NEC K warrants are measured at fair value with reference to the quoted price of the warrants. For further description of accounting treatment of the warrants, refer to note 3, Summary of significant accounting policies.

The following Group financial instruments are not measured at fair value: cash and cash equivalents, trade receivables, other short-term receivables and interest bearing loans.

The carrying amount of cash and cash equivalents and overdraft facilities is approximately equal to fair value since these instruments have a short term to maturity. Similarly, the carrying amount of trade receivables and trade payables is approximately equal to fair value since they are entered into on "normal" terms and conditions. The fair value of un-quoted loan notes have been calculated using market interest rates.

### Credit Risk

Financial instruments, which potentially subject the Group to concentrations of credit risk, consist primarily of trade accounts receivables and other derivatives. The carrying amount of the Group's financial assets presented above represents the maximum credit risk exposure. Certain trade accounts receivables in the Energy marketing segment are guaranteed by a third party insurer up to USD 7.5 million. The amount secured through these guarantees are not deducted in the analysis below.

Maximum exposure to credit risk for trade accounts receivables at the reporting date by geographic area and type of customer was:

(in USD thousands)	Carrying Amount	
	2010	2009
<b>Norway</b>	-	-
<b>Brazil</b>		
Petrobras	-	5,788
Others	-	-
<b>USA</b>		
Exploration and production	244	555
Gathering and transmission	144	188
Energy marketing - wholesale	6,607	9,659
Energy marketing - retail	2,520	3,327
Corporate	5	-
<b>Total</b>	<b>9,520</b>	<b>19,517</b>

The aging of trade receivables at the reporting date was:

(in USD thousands)	2010		2009	
	Carrying value	Impairment	Carrying value	Impairment
Current receivables	8,437	98	18,689	5
Past due 0-30 days	279	-	700	50
Past due 31-120 days	610	-	128	88
Older than 120 days	195	-	-	-
<b>Total</b>	<b>9,520</b>	<b>98</b>	<b>19,517</b>	<b>143</b>

The movement in allowance for doubtful accounts in respect of trade receivables during the year was as follows:

(in USD thousands)	2010	2009
Provision as of January 1	143	144
Provision for bad debt during the period	-	43
Realized losses for the year	(45)	(44)
<b>Provision as of December 31</b>	<b>98</b>	<b>143</b>

## Liquidity risk

The following are the contractual maturities on financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

December 31, 2010

(in USD thousands)		0-1	1-3	3-12	1-3	3-5	> 5
Non-derivative financial liabilities	Total	months	months	months	years	years	years
NEC02 secured bond loan	(80,723)	(1,355)	-	(4,861)	(74,508)	-	-
NEC03 secured bond loan	(8,742)	(252)	-	(4,371)	(4,119)	-	-
NEC04 secured bond loan	(5,638)	-	(132)	(397)	(2,951)	(2,158)	-
NEC05 secured bond loan	(21,558)	-	(481)	(1,442)	(11,305)	(8,331)	-
US loans	(19,591)	(65)	(370)	(15,448)	(1,977)	(1,731)	-
Accounts payable and other payments	6,065	4,017	2,048	(1)	-	-	-
<b>Total non-derivative financial liabilities</b>	<b>(130,188)</b>	<b>2,346</b>	<b>1,066</b>	<b>(26,519)</b>	<b>(94,860)</b>	<b>(12,220)</b>	<b>-</b>

(in USD thousands)		0-1	1-3	3-12	1-3	3-5	> 5
Derivative financial liabilities	Total	months	months	months	years	years	years
Energy marketing financial contracts							
Long contracts	1,648,965	207,555	339,270	874,405	227,735	-	-
Short contracts	(806,570)	(189,690)	(242,070)	(283,390)	(91,420)	-	-
<b>Total derivative financial liabilities</b>	<b>842,395</b>	<b>17,865</b>	<b>97,200</b>	<b>591,015</b>	<b>136,315</b>	<b>-</b>	<b>-</b>

December 31, 2009

(in USD thousands)		0-1	1-3	3-12	1-3	3-5	> 5
Non-derivative financial liabilities	Total	months	months	months	years	years	years
NEC01 unsecured bond loan (fixed rate)	(54,469)	-	-	(54,469)	-	-	-
NEC02 unsecured bond loan (fixed rate)	(84,750)	-	-	(4,875)	(79,875)	-	-
NEC03 unsecured bond loan (fixed rate)	(9,636)	-	-	(9,636)	-	-	-
NEC04 unsecured bond loan (fixed rate)	(6,018)	-	-	(269)	(5,749)	-	-
NEC05 unsecured bond loan (fixed rate)	(23,518)	-	-	(1,906)	(21,612)	-	-
US loans	(25,844)	(86)	(421)	(20,642)	(1,977)	(1,977)	(741)
Brazil loans	(85,661)	(959)	(1,869)	(61,696)	(21,137)	-	-
Accounts payable and other payments	(50,946)	(21,743)	(25,826)	(3,377)	-	-	-
<b>Total non-derivative financial liabilities</b>	<b>(340,842)</b>	<b>(22,788)</b>	<b>(28,116)</b>	<b>(156,870)</b>	<b>(130,350)</b>	<b>(1,977)</b>	<b>(741)</b>

(in USD thousands)		0-1	1-3	3-12	1-3	3-5	> 5
Derivative financial liabilities	Total	months	months	months	years	years	years
Energy marketing financial contracts							
Long contracts	(721)	(111)	(199)	(322)	(89)	-	-
Short contracts	992	66	92	453	381	-	-
<b>Total derivative financial liabilities</b>	<b>271</b>	<b>(45)</b>	<b>(107)</b>	<b>131</b>	<b>292</b>	<b>-</b>	<b>-</b>

In determining the maturity analysis above, the Group has utilized the current spot rates at year-end 2010 and 2009 respectively. For the Mid American Natural Resources and Norse Energy Corporation USA financial contracts, the cash flows projected from the long and short positions are calculated as the difference between the terms of each financial contract and the forward settlement prices at year-end 2010 and 2009.

## Market risk

### Currency risk

The Group's exposure to foreign currency risk, based on nominal amounts, was as follows:

	2010		2009	
(in USD thousands)	NOK	BRL	NOK	BRL
Cash and cash equivalents	291	-	381	13,105
Trade receivables	90	-	-	5,788
Deposits	97	-	-	-
Bond loans	(3,919)	-	(48,587)	(59,749)
Trade payables	(213)	-	(93)	(33,977)
<b>Net balance sheet exposure</b>	<b>(3,654)</b>	<b>-</b>	<b>(48,299)</b>	<b>(74,833)</b>

A 20% strengthening or weakening of the USD against the following currencies at December 31, 2010 and December 31, 2009, respectively, would have increased (decreased) equity and profit or loss by the amounts shown below. The company's assessment of what a reasonable potential change in foreign currencies that the company is currently exposed to have been changed as a result of the changes observed in the world financial markets. This hypothetical analysis assumes that all other variables, including interest rates and commodity prices, remain constant.

(in USD thousands)	2010		2009	
USD vs NOK	+ 20 %	- 20 %	+ 20 %	- 20 %
Cash	(48)	73	(378)	566
Loans	653	(980)	8,098	(12,147)
<b>Net P&amp;L effect</b>	<b>605</b>	<b>(907)</b>	<b>7,720</b>	<b>(11,581)</b>

#### USD vs BRL

Cash	-	-	(2,621)	2,621
Receivables	-	-	(1,158)	1,158
Payables	-	-	6,795	(6,795)
Loans	-	-	11,950	(11,950)
<b>Net P&amp;L effect</b>	<b>-</b>	<b>-</b>	<b>14,966</b>	<b>(14,966)</b>

This sensitivity analysis is presented on a pre-tax basis.

#### Interest rate risk

The Group is exposed to interest rate risk as entities in the group borrow money at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings. A change in 100 basis points in interest rates at the reporting date would have increased (decreased) profit and loss before tax by the amounts shown in the table below. This analysis assumes foreign currency rates and other variables to be constant.

(in USD thousands)	2010		2009	
	+ 100 bp	- 100 bp	+ 100 bp	- 100 bp
Cash	256	(131)	281	(227)
Floating interest loans	(141)	141	(894)	894
<b>Net P&amp;L effect</b>	<b>115</b>	<b>10</b>	<b>(613)</b>	<b>667</b>

#### Commodity price risk

The Group is exposed to fluctuations in the prices for oil and natural gas. The Group utilizes natural gas futures to hedge certain exposures to market price fluctuations on its anticipated sales. The derivative instruments have the effect of locking in for specified periods the prices the Group will receive for the volumes which the derivative relates. While these derivatives are structured to reduce the Group's exposure to changes in prices associated with the derivative commodity, they also limit the benefit that might otherwise been received.

The Group has entered into forward contracts for a portion of production.

In the US, the Group has sold forward the following volumes of natural gas by using financial derivatives:

- 936,303 MMBtu for the period January 1, 2011 to December 31, 2011 at an average price of USD 5.73/MMBtu.
- 672,696 MMBtu for the period January 1, 2012 to December 31, 2012 at an average price of USD 5.57/MMBtu.
- 513,779 MMBtu for the period January 1, 2013 to December 31, 2013 at an average price of USD 5.50/MMBtu.

After the sale of the certain producing assets in March 2008, it was deemed that the Group does no longer qualify for hedge accounting under IAS 39 *Financial Instruments: Recognition and Measurement* for the remaining open forward contracts. When qualifying for hedge accounting, the change in fair value of the forward contracts were charged directly to equity. When not qualifying for hedge accounting, the fair value on these contracts are charged to the income statement.

#### Energy marketing activity risk

The Energy Marketing segment generates a margin via sales and purchases of physical volumes of natural gas. The majority of the fixed price purchase-contracts, both financial and physical, are balanced with fixed price sales-contracts, financial or physical. Consistent with corporate policy the only price exposure the Group has on fixed price contracts to the NYMEX is restricted to less than 100,000 Dth at any time.

All open positions (financial hedging transactions as well as physical fixed price contracts) are recognized at fair value through profit and loss at year-end. The fair value of these transactions is calculated based on NYMEX futures and forward basis. The Group recognized an unrealized loss for the 12 months ended December 31, 2010 of USD 0.45 Million.

The following shows the mark-to-market value of outstanding contracts for future purchase and sale of gas and unrealized gain (loss) as of December 31, 2010:

(in USD thousands, unless otherwise indicated)	Dth	Market value
Future purchases	4,557,753	602
Future sales	(5,850,307)	1,488
Basis reserve		(95)
Fair value at 12.31.10		1,995
Fair value at 12.31.09		2,446
Net unrealized loss as of 12.31.10		(451)

As of December 31, 2010, the Energy Marketing segment had net open contracts totaling (1,292,500) Dth (sale-contracts in excess of purchase-contracts), of which about 36,000 Dth have NYMEX risk. These open contracts are priced at NYMEX plus a basis differential. The existing efficient financial OTC and NYMEX based markets mitigate the risk for price variations attributable to the NYMEX price. Accordingly, the only price risk related to these open contracts is the risk for fluctuation of the basis differential. In the US EM segment's core market area, the basis differential varies between USD 0.10 and USD 0.40 depending on which pipeline the gas is traded on and the time of the year. Historically, this differential has varied very little between periods.

## Note 17. Restricted cash

Restricted cash in Norway relates to employee withholding taxes of USD 0.04 and USD 0.08 Million for 2010 and 2009, respectively.

Restricted cash in the US consists of USD 0.7 Million and USD 1.3 Million to back letters of credit in the energy marketing segment for 2010 and 2009, respectively. Restricted cash also includes USD 0.3 Million of prepayments from our joint venture partner, Stryker Energy for 2010. Included in other current assets are restricted cash for margin calls of USD 0.04 Million and 0.4 Million for 2010 and 2009, respectively.

In 2009 in Brazil, cash of USD 4.0 Million was restricted for installment of long-term debt to Unibanco.

## Overdraft facilities

Norse Energy Corporation USA has a bank overdraft facility of USD 14.2 Million as of December 31, 2010, and 21.8 Million as of December 31, 2009, whereof USD 14.1 Million and USD 19.2 Million was drawn down as of December 31, 2010 and 2009, respectively.

Norse Energy do Brasil had a BRL denominated bank overdraft facility of USD 1.7 Million as of December 31, 2009 with USD 1.6 Million drawn down as of December 31, 2009.

## Note 18. Share Capital and Reserves

(in USD thousands)	Number of shares	Share capital	Share premium
Balance at December 31, 2008	353,164,530	43,614	261
Share issue, September 2009	35,316,451	5,393	17,366
<b>Balance at December 31, 2009</b>	<b>388,480,981</b>	<b>49,007</b>	<b>17,627</b>
Share capital reduction <sup>(1)</sup>	-	(24,503)	-
Share issue, February 2010	70,588,235	10,530	37,772
Share issue, April 2010	9,085,350	1,356	4,922
Demerger of Norse Energy do Brasil S.A.	-	(9,802)	(17,627)
Share issue, July & August 2010	65,000,000	3,878	13,076
<b>Balance at December 31, 2010</b>	<b>533,154,566</b>	<b>30,466</b>	<b>55,771</b>

(1) The reduction in share capital approved at the Extraordinary General Meeting on January 28, 2010, as part of the Demerger plan, was registered with the Register of Business Enterprises in February 2010.

All issued shares have a par value of NOK 0.37 and are of equal rights. NEC ASA is incorporated in Norway and the share capital is denominated in NOK. In the table above, the issued capital and share premium is translated to USD at the foreign exchange rate in effect at the time of each share issue.

Norse Energy holds 108,605 treasury shares as of December 31, 2010.

The Group has issued 75 Million warrants (the NEC-J warrants) in connection with its USD 75 Million bond loan. The warrants give the right to new ordinary shares at NOK 4.52 per share. See note 20 for details relating to the USD 75 Million bond loan.

The Group has issued 55 Million warrants (the NEC-K warrants) in conjunction with the bond restructuring that occurred on June 30, 2010. The warrants give right to new ordinary shares at NOK 2.21 per share. See note 20 for details relating to the restructuring.

For a listing of the largest shareholders at year end see Note 10 in the Parent Company Financial Statements.

## Note 19. Non-controlling interests

(in USD thousands)	2010	2009
At January 1	30,084	-
Sale of minority interest in Norse Energy do Brasil S.A. (see note 6)	-	31,522
Share of loss for the year	(1,373)	(3,832)
Share of other comprehensive income for the year	(1,013)	2,394
Demerger of Norse Energy do Brasil S.A. (see note 4)	(27,698)	-
<b>At December 31</b>	<b>-</b>	<b>30,084</b>

## Note 20. Interest-bearing debt

Below is a summary of the company's interest bearing debt as of December 31, 2010:

(in USD thousands)	Interim Rate	Effective Date	Final Rate	Effective Date	Maturity Date		Within 1 year	After 1 year	Total
					Tranche 1	Tranche 2			
NEC02 - USD 75 million bond loan	8.50% Fixed	7/1/2010	13.50% Fixed	7/15/2011	7/14/2012	7/14/2013	-	56,218	56,218
NEC03 - USD 8.8 million bond loan	11.50% Fixed	7/1/2010	13.50% Fixed	7/7/2010	7/6/2011	7/6/2012	3,576	3,500	7,075
NEC04 - NOK 27 callable bond loan	N/A	N/A	13.50% Fixed	7/1/2010	9/25/2013	9/25/2014	-	3,632	3,632
NEC05 - USD 17.8 million bond loan	12.707% Fixed	7/1/2010	13.50% Fixed	9/26/2012	9/25/2013	9/25/2014	-	13,996	13,996
Gathering & Transmission			4.250% Fixed	N/A	9/30/2015		822	3,411	4,233
Exploration & Production			prime + margin	N/A	1/1/2011		14,134	-	14,134
<b>Total</b>							<b>18,531</b>	<b>80,757</b>	<b>99,288</b>

The interest rates presented in the table for NEC02, NEC03, NEC04, and NEC05 are the contractual rates, not the calculated interest rate under IFRS which is based on amortized cost. Tranche 1 and Tranche 2 are equal to exactly half of the remaining principal of each of the bonds.

Certain loans are classified as short-term debt as of December 31, 2010 as the Group was not in compliance with all financial covenants and the waivers obtained do not meet the IFRS requirements in order to keep the loans classified as long-term debt. These loans are grouped as due within one year in the above table. See further details below.

### Restructuring

The Company restructured its bond debt on June 30, 2010 in connection with the demerger of Norse Energy do Brasil S.A. The NEC01 bond loan of NOK 286 Million was assumed by Norse Energy do Brasil S.A. without recourse. NEC02, NEC03, NEC04, and NEC05 have been ascribed to Norse Energy Corporation ASA's US subsidiary, Norse Energy Holdings, Inc. The restructuring entailed a pre-payment of 15% of the outstanding principal in July 2010, a step up of interest rates, aligning interest periods to quarterly payments, and extending maturities on the remaining balances after the pre-payment. The bonds also became secured as part of the new terms and conditions. See further details below.

### Bond loans

#### USD 75 Million bond loan ("NEC02")

In 2006, Norse Energy issued USD 75 Million five year bond notes. The notes are secured by, (i) a first priority pledge of the issued and outstanding capital stock of Norse Energy Holding, Inc. and its Subsidiaries, (ii) a first priority pledge in intercompany debt and (iii) guaranteed by the parent NEC ASA. On June 30, 2010 the bond notes were refinanced. As a result, an USD 11.3 Million pre-payment was paid in July 2010. The interest rate was increased from 6.50% to 8.50% until July 14, 2011 when the rate increases again to 13.50%. Half of the remaining principal outstanding, USD 31.9 Million, matures on July 14, 2012. The other half matures a year later on July 14, 2013. The bonds are listed on the OSE under the ticker code "NEC02". The Group holds 1.3 Million of its own NEC02 bonds totaling USD 1.1 Million as of December 31, 2010.

#### USD 8.8 Million bond loan ("NEC03")

In December 2008, the Group issued USD 8.8 Million bond notes. The notes are secured by, (i) a first priority pledge of the issued and outstanding capital stock of Norse Energy Holdings, Inc. and its Subsidiaries, (ii) a first priority pledge in intercompany debt and (iii) guaranteed by the parent NEC ASA. On June 30, 2010 the bond notes were refinanced. As a result, a USD 1.3 Million pre-payment was paid in July 2010. The interest rate increased from 9.50% to 11.50% until July 6, 2010 when the rate increased again to 13.50%. Half of the remaining principal outstanding, USD 3.7 Million, matures on July 6, 2011. The other half matures a year later on July 6, 2012.

#### NOK 27.0 Million bond loan ("NEC04")

In September 2008, the Group issued NOK 27 Million bond notes. The notes are secured by, (i) a first priority pledge of the issued and outstanding capital stock of Norse Energy Holdings, Inc. and its Subsidiaries, (ii) a first priority pledge in intercompany debt and (iii) guaranteed by the parent NEC ASA. On June 30, 2010 the bond

notes were refinanced. As a result, a NOK 4.1 Million pre-payment was paid in July 2010. The interest rate increased from 11.50% to 13.50%. Half of the remaining principal outstanding, NOK 11.5 Million matures on September 25, 2013. The other half matures a year later on September 25, 2014. The bonds are listed on the Oslo ABM under the ticker code "NEC04 RET".

#### *USD 17.8 Million bond loan ("NEC05")*

In December 2008, Norse Energy issued USD 17.8 Million bond notes. The notes are secured by, (i) a first priority pledge of the issued and outstanding capital stock of Norse Energy Holdings, Inc. and its Subsidiaries, (ii) a first priority pledge in intercompany debt and (iii) guaranteed by the parent NEC ASA. On June 30, 2010 the bond notes were refinanced. As a result, a USD 2.7 Million pre-payment was paid in July 2010. The interest rate increased from 10.707% to 12.707% until September 25, 2012 when the rate increases again to 13.5%. Half of the remaining principal outstanding, USD 7.6 Million matures on September 25, 2013. The other half matures a year later on September 25, 2014. The bonds are listed on the Oslo ABM under the ticker code "NEC05 RET".

#### *Warrants*

Subscribers to NEC02 were allocated warrants that give the holders rights to subscribe to one new share in Norse Energy Corp. ASA at an exercise price of NOK 4.52 per share. The warrants are listed on the OSE under the ticker code "NEC J".

As a result of the restructuring, subscribers to NEC02, NEC03, NEC04, and NEC05 were allocated warrants that give the holders rights to subscribe to one new share in Norse Energy Corp. ASA at an exercise price of NOK 2.21 per share. The warrants are listed on the OSE under the ticker code "NEC K".

IAS 39 requires that the proceeds from the issuance of bond loans are split between the long-term loan element and the embedded derivative. In this case, the fair value of the option to convert to shares (the warrants). The long-term loan element is amortized to the full value of the loan over the life of the loan, based on the effective interest rate method. As USD is the functional currency of Norse Energy Corp. ASA and the warrants are denominated in NOK, IFRS requires that the warrants are recorded as a liability and not as a component of equity.

At each reporting date, any change in the fair value of the warrants is recorded in the statement of comprehensive income based on the price of the warrants. An increase in the fair value of the warrants will cause a charge to the income statement and a corresponding increase in the liability. A decrease in the warrant price will lead to a decrease in the liability. The Group recognized gains on the NEC J warrants of USD 5.1 Million and USD 0.7 Million relating to changes in the fair value of the warrants in 2010 and 2009, respectively. The Group recognized a gain on the NEC K warrants of USD 0.8 Million in 2010. These gains do not affect the amount to be repaid to the bondholders at maturity.

As of December 31, 2010, no warrants were converted to shares.

#### *Bond covenants*

The main covenants for NEC02, NEC03, NEC04, and NEC05 are as follows:

- 1) Norse Energy Holdings, Inc. must maintain an equity to capital employed ratio of at least 30% at all times after March 31, 2011. Capital employed is defined as equity plus the aggregate book value of gross interest bearing debt, including any zero coupon loans and other financial instruments with the commercial effect of borrowing (i.e. guarantees and leasing commitments).
- 2) NEHI must maintain a minimum equity of USD 36 Million at all times after March 31, 2011.
- 3) There is a USD 55 Million maximum on the Reserve Based Lending (See Exploration & Production revolving credit agreement below) unless backed by new equity or repayment of existing bond debt.
- 4) Fifty percentage of the net proceeds received, exceeding USD 10 Million, arising from the sale of gas reservoirs/fields in any U.S. Group entity holding such interest are to be offered to redeem the Norse Energy loans pro rata at par plus accrued interest.

The Group was in compliance with the loan covenants as of December 31, 2010. There is a risk the Group will not be in compliance with the loan covenants at March 31, 2011. This non-compliance will be immediately cured by the equity offering of 210 Million shares in April 2011, see note 29 for details on this offering.

#### **Gathering & Transmission note payable**

As of December 31, 2010, the gathering system business segment has a term note payable with a remaining value of USD 4.2 Million and an imputed interest rate of 4.25%. The principal and interest are payable quarterly in the amount of USD 0.2 Million until September 30, 2015. As a result of the term, the business segment has recorded USD 0.8 Million as a current liability. The financing agreement is secured by the physical pipeline assets. In addition, the note is guaranteed by Norse Energy Holdings, Inc. for USD 4 Million. The business segment was in compliance with the covenants of the term note payable.

#### **Exploration & Production revolving credit agreement**

The exploration and production business segment has a revolving credit agreement with a bank collateralized by certain assets with a borrowing base of USD 14.2 Million. The borrowing base is based on net proven production reserves and the prevailing natural gas prices in the market place. As reserves, production, and the price of



natural gas changes, the borrowing base is periodically adjusted. The credit available under the agreement was USD 0.1 Million as of December 31, 2010. The credit agreement carries an interest rate ranging from prime to prime plus 0.375% depending on the utilization of the credit line.

In addition to other nonfinancial covenants, the credit agreement requires the business segment to maintain certain financial covenants. As of December 31, 2010, this business segment failed to comply with certain covenant requirements under the credit agreement which constitutes a pending default, as defined. The balance owed under the credit agreement is being presented as a current liability.

## Note 21. Asset retirement obligations

In accordance with agreements and legislation, the wellheads, production assets, pipelines and other installments may have to be dismantled and removed from oil and natural gas fields when the production ceases.

The following table presents a reconciliation of the beginning and ending aggregate carrying amounts of the obligations associated with the retirement of oil and natural gas properties:

(in USD thousands)	2010	2009
At January 1	13,172	15,824
Liabilities incurred during the year	176	18
Incurred removal of Coral expenditures	-	(10,950)
Incurred US expenditures	(28)	-
Changes in estimated obligations	2,397	8,242
Accretion expense	32	38
Demerger of Norse Energy do Brasil S.A.	(12,665)	-
At December 31	3,084	13,172
Short-term asset retirement obligations	-	-
Long-term asset retirement obligations	3,084	13,172

In June 2010, all asset retirement obligation for Brazil was demerged with Norse Energy do Brasil S.A. For the year ended December 31, 2009, included in the asset retirement obligation above is USD 12.7 Million for Brazil and is based on an appraisal report prepared by the operator of the Manati field's engineers to Agencia Nacional de Petroleo (Petroleum National Agency) regulations. The asset retirement obligations for the US natural gas fields amounted to USD 0.5 Million for the year ended December 31, 2009.

The decommissioning of the Coral field was concluded during 2009.

## Note 22. Reserves (Unaudited)

The Group has adopted a policy of reserve reporting using an external third party company to audit its work and certify reserves and resources according to the guidelines established by the Oslo Stock Exchange (OSE). The Company has a long standing relation with its certification agent, Schlumberger Technology Corporation. Reserve and Contingent Resource estimates comply with the definitions set by the Petroleum Resources Management System (PRMS) issued by the Society of Petroleum Engineers (SPE), the American Association of Petroleum Geologists (AAPG), the World Petroleum Council (WPC) and the Society of Petroleum Evaluation Engineers (SPEE) in March 2007.

The following is a summary of key results from the reserve report (net of the Group's share):

	1P Reserves (MMBOE)	2P Reserves (MMBOE)
<b>Total as of December 31, 2010</b>	<b>6.1</b>	<b>7.3</b>
During 2010 and 2009, the Group had the following reserve development:		
	2010 2P Reserves (MMBOE)	2009 2P Reserves (MMBOE)
Balance (previous ASR) as of January 1,	42.9	43.8
Demerger of Norse Energy do Brasil S.A.	(35.7)	-
Production	(0.4)	(1.6)
Acquisitions/disposals since previous ASR	0.3	-
Extensions and discoveries since previous ASR	0.1	-
New Developments since previous ASR	-	1.2
Revision of previous estimates	0.1	(0.5)
<b>Balance (current ASR) as of December 31,</b>	<b>7.3</b>	<b>42.9</b>

The determination of these reserves is part of an ongoing process subject to continual revision as additional information becomes available. Estimates of proved and probable reserve quantities are imprecise and change over time as new information becomes available. Moreover, identified reserves and contingent resources that may become proved in the future, are excluded from the calculations.

#### Definitions:

##### 1P) Proved Reserves

Proved Reserves are those quantities of petroleum, which by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations.

##### 2P) Probable Reserves

Probable Reserves are those additional Reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible

## Note 23. Interests in joint ventures and associates

### USA

In the US, certain of the natural gas wells are 25-75% owned by joint venture partners. The joint operating agreements correspond to a widely adopted practice in the international oil industry where companies endeavor to share the risks inherent in exploration and production projects.

During the fourth quarter of 2010, the company announced two joint venture agreements to drill Herkimer wells with Stryker Energy and Bradford Energy Capital XXIX L.P. Stryker Energy funded its 50% participation in three wells in October 2010. Norse Energy elected not to expand its joint venture with Stryker. Bradford Energy pre-funded its 25-50% working interest participation in up to 18 wells in the 2011 Herkimer Drilling program with USD 9 Million.

### Brazil

#### Santos Basin

Prior to the demerger, Norse Energy had interests in multiple E&P licenses in Brazil. The Company's entrance in the Brazilian oil industry was made by participating in three oil development and production licenses located in the Santos basin outside the southeast coast of Brazil that are operated by Petrobras.

#### Camamu-Almada Basin

Norse Energy's asset portfolio in Brazil also included two distinct Jointly Controlled Field Assets in the Camamu-Almada offshore basin, located on the northeastern coast of the country: BCAM-40 Block and the Sardinha field.

## **Note 24. Guarantees and pledges**

Within the exploration and production business segment, Norse Energy Corporation USA has pledged nearly all of its assets as security under the credit agreement (See Exploration & Production revolving credit agreement in Note 20). The amount of eligible borrowings under the agreement is USD 14.1 Million. The net book value of assets pledged under this business segment is USD 151 Million.

The exploration and production business segment has deposits of USD 0.02 Million with Somerset Production Company for the plugging of jointly owned wells.

The gathering systems segment has a financing agreement with Columbia Gas which is secured by the physical pipeline asset. In addition, the US parent has a limited guarantee and surety agreement with Columbia Gas for USD 4 Million.

The energy marketing segment has deposits with four pipelines as security for letters of credit in the amount of USD 1.3 Million.

Following the Public Limited Companies Act § 14-11 (3), the Company and the demerged entity (Norse Energy do Brasil S.A.) are jointly and severally liable for the obligations transferred. However, when it comes to the bond loan transferred, the bondholders waived the Company's liability under this paragraph.

As part of the restructuring of the bond debt, the Company became a guarantor for Norse Energy Holdings, Inc, obligations under the amended loan agreement.

## **Note 25. Other commitments and contingent liabilities**

### **Leasing of land**

In the US, Norse Energy is leasing the majority of the land where natural gas is being produced. Such leasing contracts are entered into before drilling of the wells start and should the drilling fail to find any producible gas, the leasing contract may be terminated. Generally, the Group pays a 12.5% royalty of gross revenue from natural gas production to the landowners in the US where the land is leased.

### **Joint Venture Commitment**

On December 20, 2010, Norse entered into a Drilling Program Agreement with Bradford Drilling Associates XXIX, L.P. (Bradford) to drill 18 wells in New York state. Bradford pre-funded its contractual commitment for all 18 wells contemporaneously with execution of the agreement. The agreement calls for 18 wells to be drilled with Bradford participating for 25-50% working interest, as well as paying for well line connections, a prospect fee per location and a gathering rate for production from successful wells. As of April 11, 2011, three wells in the program have been drilled and successfully completed, and 15 remain to be drilled. Post-completion, Bradford remains liable for its proportionate share of lease operating expenses, as well as plugging and abandoning the wells drilled under the program at the end of their economic life.

### **Firm transportation**

The Company has a contract to pay approximately USD 65,000 per month for the firm capacity reservation of 14,000 Dth / day on Dominion Transmission, Inc's interstate pipeline. The contract expires November 2014 and continues year after year until either party terminates.

### **Operating leases**

Operating leases relate to leases of office space and various equipment. The Group rents certain office space under long-term, noncancelable operating lease agreements. Certain lease agreements contain provisions providing for increases based upon the Consumer Price Index. Additionally, the Company may be required to pay a portion of the building's operating expenses. The leases expiration dates range from 2010 to 2019 and provide for renewal options.

**Payments recognized as an expense**

(in USD thousands)	2010	2009
Minimum lease payments	1,249	1,224
Contingent rentals	-	-
Sub-lease payment received	(36)	(9)
<b>Total</b>	<b>1,213</b>	<b>1,215</b>

**Non-cancellable operating lease commitments**

(in USD thousands)	2010	2009
Not later than 1 year	792	1,283
Later than 1 year and not later than 5 years	1,776	2,275
Later than 5 years	680	881
<b>Total</b>	<b>3,248</b>	<b>4,439</b>

**Non-cancellable sub-lease payments expected**

(in USD thousands)	2010	2009
Not later than 1 year	(36)	(36)
Later than 1 year and not later than 5 years	(3)	(39)
Later than 5 years	-	-
<b>Total</b>	<b>(39)</b>	<b>(75)</b>

**Contingent Liabilities**

On June 30th 2010, Norse Energy ASA completed its bond restructuring. As part of the bond restructuring, NEC02-NEC05 were transferred to Norse Energy Holdings, Inc., Norse Energy ASA's US subsidiary. In the United States, a company is responsible for withholding taxes from interest payments to bondholders unless the beneficial owner completes a W-8BEN for bondholders being a resident for tax purposes in countries with a tax treaty with the U.S and form W-9 for U.S residents.

The Company did not withhold taxes from any interest payments made to its bondholders since June 30th, 2010. The Company will require that all beneficial owners complete a W-8BEN or W-9, if applicable, before any more interest payments are distributed. As the forms are retroactive, the Company will not be liable for any tax due on interest payments to beneficial owners who complete a W-8BEN or W-9. As a result of this fact, nothing has been accrued for this liability as of December 31, 2010 since the liability is not estimable.

**Note 26. Related parties transactions**

Norse Energy has certain transactions with related parties. All transactions are priced on arm's length basis. See note 10 in the parent company's notes for shares owned by Officers and Board directors in Norse Energy.

Norse Energy leased a parking space in Oslo from the Former CEO, Øivind Risberg, for NOK 1,500 per month in 2009 and 2010, equaling approximately USD 2,900. Norse Energy Corp ASA has a long-term note receivable from Øivind Risberg. Refer to note 9 for details on the terms of this loan.

For the year 2010, Norse Energy Holdings, Inc. through its' subsidiary Norse Energy Corporation USA and Vandermark Exploration, Inc. provided well tending services, technical support, and other expertise to Somerset Production Company. Norse Energy Corporation USA has an 18% interest in Somerset Production Company. For the year, Norse Energy Corporation USA has billed Somerset approximately USD 90 Thousand for expense reimbursement, well tending fees and other miscellaneous costs. As of December 31, 2010 Norse Energy Corporation USA has a net receivable of USD 16 Thousand. All transactions are deemed to be negotiated at arm's length.

## Note 27. Legal proceedings

Plymouth Resources, LLC is challenging both before the New York State Department of Environmental Conservation (DEC) and in Federal District Court the Wickham well integration unit being established by the DEC, questioning whether Norse is properly producing from that unit and seeking in the court proceeding ~\$19 million as essentially a punitive damage claim. Both Norse and DEC staff have disputed in the DEC proceedings Plymouth's allegations that Norse is producing from more than the Vernon formation in the Wickham well and the DEC is expected to rule shortly. Central to Plymouth's federal case is the same allegation as in the DEC proceeding, that Norse is producing the Wickham well in more than one formation. If the DEC determines, as expected, that Norse is producing only in the Vernon shale and approves the unit, we anticipate bringing that information into the federal proceeding seeking to have the case dismissed. As a result, no accrual has been made related to this lawsuit.

Norse Pipeline has legally challenged several of the property tax assessments on the parcels of real property. A majority of the townships have agreed to honor the settlement amounts and maintain the assessments at the settled levels. However, there are five townships that have assessed the real property with a significant increase. Norse Pipeline is contesting the reassessment and has not accrued for any of the increase in property tax. These reassessments pertain to the 2009 and 2010 tax years. The variance is approximately \$50,000 per year.

Two separate lawsuits have been submitted involving an injury claim to a subcontracted individual of a drilling services company who was injured during drilling operations. In each respective case, Norse Energy Corporation USA is indemnified by the drilling company from liability for any damages awarded. Accordingly, no accrual has been made in the financial statements related to this lawsuit.

## Note 28. Subsidiaries

Details of the Group's subsidiaries as of December 31, 2010 are as follows:

Company	Subsidiaries	Place of incorporation and operation	Ownership interest and voting power	
			12/31/10	12/31/09
Norse Energy Corp. ASA	Norse Energy AS	Norway	100%	100%
	Norse Energy Holdings, Inc.	USA	100%	100%
	Naftex Energy Corporation	Canada	100%	100%
Naftex Energy Corporation	Naftex Energy (Whitehorse) Limited	Canada	100%	100%
	Naftex Energy (Yukon) Limited	Canada	100%	100%
Norse Energy Holdings, Inc.	Norse Energy Corp. USA	USA	100%	100%
	Nornew Energy Supply, Inc.	USA	100%	100%
	Norse Pipeline, LLC	USA	100%	100%
	Mid American Natural Resources, LLC	USA	100%	100%
Norse Energy Corp. USA	Vandermark Exploration, Inc.	USA	100%	100%

## Note 29. Subsequent events

February 17, 2011, Norse Energy through its subsidiary, Norse Energy Holdings, Inc., executed Purchase and Sale Agreements to sell certain of its midstream assets to Appalachian Transportation and Marketing LLC (Appalachian) for a total consideration of USD 20.7 Million. The midstream assets consist of the Company's Norse Pipeline, LLC, Nornew Energy Supply, Inc., and Mid American Natural Resources, LLC.

Norse Pipeline, LLC. and Norse Energy Supply, Inc. are subject to regulation by the New York Public Service Commission, who must therefore approve the transfer to Appalachian. The Company filed for the necessary regulatory approval immediately upon execution of the previously announced Letter of Intent, with Appalachian CEO and former Norse Energy CEO Oivind Risberg. The Company anticipates timely Commission action with closing to follow immediately upon receipt of the requested regulatory approval for conveying Norse Pipeline, LLC and Norse Energy Supply, Inc. to Appalachian. No such regulatory approval is anticipated to be required for Mid American Natural Resources, LLC.

March 24, 2011, Norse Energy completed a private placement for a total of 210,000,000 new shares at NOK 0.80, directed towards Norwegian and international institutional investors. The Extraordinary General Meeting April 15, 2011 voted in favor of the capital increase and also voted in favor of a proposal to offer up to 37,500,000 new shares to existing shareholders that were not offered to participate in the initial offering. The latter repair issue could raise an additional NOK 30 Million (USD 5 Million).

### Note 30. Going concern

The Board of Directors confirms that the annual financial statements have been prepared pursuant to the going concern assumption, in accordance with section 3-3 of the Norwegian Accounting Act, and that this assumption was made based on the financial position of the Company at the time the accounts were approved. This assumption is further based upon the successful outcome of the financial challenges facing the Company as described in this report. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

The Extraordinary General Meeting on April 15, 2011 approved a capital increase after the successful USD 30 Million (NOK 168 Million) private placement completed March 25, 2011. The private placement is followed by a subsequent issue of up to 37,500,000 additional shares directed to shareholders not participating in the private placement. The latter subsequent issue could raise an additional USD 5.4 million (NOK 30 Million). The capital increase, along with the announced strategy of monetizing selected assets or acreage deemed not core, enables the company to operate in the near term with additional financial flexibility to pursue its Herkimer development program, pipeline capacity expansion and preparation for drilling in the Marcellus and Utica shale provided larger scale hydro-fracturing regulations are implemented in New York State (see paragraph 5 below).

At present, the Company is exploring and drilling the Herkimer sandstone formation exclusively and is operating at a loss. Without further asset sales and capital markets financings and/or refinancing of debt, the cash flow generated from the Herkimer production alone is not expected to generate sufficient cash flow for the Company to both conduct its operations and meet its obligations for bond debt principal repayment in July 2012 through 2014, or sooner in the event debt covenant violations result in the acceleration of debt principal payments into 2011. Currently scheduled principal payments are USD 3.7 million in 2011, USD 35.6 million in 2012, USD 41.2 million in 2013, and USD 9.4 million in 2014. Refer to note 20 for a further overview of the loan covenants.

In order to address the Company's future debt maturities, the Board of Directors has stated that the Company should pursue possibilities to monetize assets in addition to capital markets transactions. The sales of the Energy Marketing Business and the Gathering and Transmission Business have been announced. Combined, they will generate approximately USD 16.5 Million in net cash to Norse and will reduce outstanding debt by approximately USD 4.2 Million when the transactions close. The Gathering and Transmission Business is subject to regulation by the New York Public Service Commission who must therefore approve the sale. No such regulatory approval is anticipated to be required for the Energy and Marketing Business. The Company is also pursuing the sale of additional assets including its gathering system and right of way in Central New York and potentially farming out portions of Herkimer and/or shale acreage.

In December 2010, the New York State Governor issued an executive order prohibiting the New York State Department of Environmental Conservation from issuing large volume hydro-fracturing permits in New York until the Supplemental Generic Environmental Impact Study (SGEIS) is finalized. The Governor of the State of New York has directed the Department of Environmental Conservation to release the regulations on or about June 1, 2011 with a minimum 30-day comment period to follow. The actual timing of the release and the final regulations cannot be predicted with certainty. A timely and positive outcome of the regulatory process will enable Norse to explore and drill the Marcellus and Utica formations in New York State on its own and/or to pursue development with partners in industry joint ventures, known as farm outs, or farm-ins, in which partners may provide operating expertise and/or capital contributions to the development of defined acreage. The release of the regulations is also likely to increase the interest of other natural gas production companies and/or midstream natural gas transmission companies in the potential acquisition of certain of the company's assets if they were to be offered for sale. The Company expects a combination of asset sales and capital markets transactions to enable it to meet its scheduled debt maturities or enable it to refinance them.





# PARENT COMPANY FINANCIAL STATEMENTS

## Parent Company Income Statement

(in NOK thousands)	Note	2010	2009
<b>Operating income</b>			
Operating revenues	2	1,840	3,020
<b>Total operating income</b>		<b>1,840</b>	<b>3,020</b>
<b>Operating expenses</b>			
General and administrative expenses	3	40,354	29,298
Depreciation and impairment	4	67	419
<b>Total operating expenses</b>		<b>40,421</b>	<b>29,717</b>
<b>Operating profit (loss)</b>		<b>(38,581)</b>	<b>(26,697)</b>
<b>Financial items</b>			
Interest received from subsidiaries	2	34,774	75,922
Other interest income		1,236	695
Other financial income	6	1,227	1,670
Currency gain/loss		(4,280)	(66,988)
Interest expense to subsidiaries		(330)	-
Interest costs	5	(24,473)	(79,480)
Other financial costs	6	(71,025)	(16,686)
<b>Net financial items</b>		<b>(62,870)</b>	<b>(84,866)</b>
<b>Result before income tax</b>		<b>(101,451)</b>	<b>(111,563)</b>
Taxes	7	-	-
<b>Result for the year</b>		<b>(101,451)</b>	<b>(111,563)</b>

## Parent Company Balance Sheet

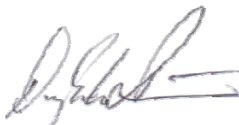
(in NOK thousands)	Note	2010	2009
<b>ASSETS</b>			
<b>Non-current assets</b>			
Furniture, fixtures and office equipment	4	528	467
Investment in subsidiaries	8	569,528	709,883
Loan to subsidiaries	2	-	520,339
Bonds	5	5,913	-
<b>Total non-current assets</b>		<b>575,969</b>	<b>1,230,689</b>
<b>Current assets</b>			
Loan to subsidiaries	2	3,279	334,833
Other current assets		1,041	1,901
Cash and cash equivalents	9	39,381	101,535
<b>Total current assets</b>		<b>43,701</b>	<b>438,269</b>
<b>TOTAL ASSETS</b>		<b>619,670</b>	<b>1,668,958</b>

### Parent Company Balance Sheet

(in NOK thousands)	Note	2010	2009
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
<b>Paid-in capital</b>			
Share capital		196,645	341,863
Share premium reserve		332,722	101,382
Other paid-in capital		94,822	295,605
Treasury shares		(92)	(92)
<b>Total paid-in capital</b>		<b>624,097</b>	<b>738,758</b>
<b>Retained earnings</b>			
Other equity		(94,526)	7,086
<b>Total retained earnings</b>		<b>(94,526)</b>	<b>7,086</b>
<b>TOTAL EQUITY</b>	<b>10</b>	<b>529,571</b>	<b>745,844</b>
<b>LIABILITIES</b>			
<b>Long-term liabilities</b>			
Bond loans	5	-	550,254
<b>Total long term liabilities</b>		<b>-</b>	<b>550,254</b>
<b>Current liabilities</b>			
Accounts payable		854	537
Bond loans	5	-	331,382
Warrants	5	79,370	-
Other current liabilities	3	9,875	40,941
<b>Total current liabilities</b>		<b>90,099</b>	<b>372,860</b>
<b>TOTAL LIABILITIES</b>		<b>90,099</b>	<b>923,114</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>619,670</b>	<b>1,668,958</b>

The Board of Directors and Presiden & CEO  
of Norse Energy Corp. ASA

Oslo, April 15, 2011


  
Dag Erik Rasmussen  
Chairman of the Board

  
Bjarte Bruheim  
Director

  
Katherine H. Støving  
Director

  
Odd Næss  
Director

  
Kathleen Arthur  
Director

  
Mark Dice  
President and CEO

## Parent Company Statement of Cash Flows

(in NOK thousands)	2010	2009
<b>Cash flows from operating activities</b>		
Net profit (loss) for the year	(101,451)	(111,563)
Depreciation and impairment	67	419
Employee options exercised	(161)	153
Loss on disposal of shares in subsidiary	-	10,153
Loss on disposal of shares	61,949	-
Change in other assets and liabilities	6,351	154,871
<b>Net cash flows from operating activities</b>	<b>(33,245)</b>	<b>54,033</b>
<b>Cash flows from investing activities</b>		
Increase in loans to subsidiaries	(328,336)	(226,354)
Investments in office equipment	(595)	(399)
Proceeds from sale of shares in Norse Energy do Brasil S.A.	-	194,529
Investment in Panoro Energy ASA	(111,000)	-
Proceeds from sale of shares in Panoro Energy ASA	49,051	-
Cash transferred as part of demerger	(27,923)	-
Investment in subsidiaries	1,020	(1,020)
<b>Net cash flows from investing activities</b>	<b>(417,783)</b>	<b>(33,244)</b>
<b>Cash flows from financing activities</b>		
Repayment of long-term debt	-	(5,000)
Interests paid	(42,938)	-
Termination of currency swaps	-	(18,034)
Net proceeds from issuance of shares	426,809	131,150
<b>Net cash flows from financing activities</b>	<b>383,871</b>	<b>108,116</b>
<b>Net increase in cash and cash equivalents</b>	<b>(67,157)</b>	<b>128,905</b>
Cash and cash equivalents at the beginning of the year	101,535	62,627
Effects of exchange rate changes on the balance of cash held in foreign currencies	5,003	(89,997)
<b>Cash and cash equivalents at the end of the year</b>	<b>39,381</b>	<b>101,535</b>



# NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

## Note 1. Accounting principles

The annual accounts for the parent company Norse Energy Corp. ASA (the "Company") are prepared in accordance with the Norwegian Accounting Act and generally accepted accounting principles in Norway (NGAAP). The consolidated financial statements have been prepared under International Financial Reporting Standards (IFRS) and are presented separately from the parent company.

The accounting policies under IFRS are described in note 3 of the consolidated financial statements. The accounting principles applied under NGAAP are in conformity with IFRS unless otherwise stated in the notes below.

The parent company's annual financial statements are presented in Norwegian Kroner (NOK) which is the currency used for accounting purposes.

Subsidiaries and investments in associates are valued at cost in the company accounts. The investment is valued at cost of the shares in the subsidiary, less any impairment losses. An impairment loss is recognized if the impairment is not considered temporary. Impairment losses are reversed if the reason for the impairment loss disappears in a later period.

Bond loans are booked net of the amortized transaction costs and transaction costs are amortized over the loan period.

Warrants are recognized as a liability.

## Note 2. Transactions and balances with subsidiaries

Operating revenues relate to administrative services provided to subsidiaries.

As of December 31, 2010, following the demerger of the Brazilian activity (see note 16), transfer of the bond debt to Norse Energy Holdings, Inc. and conversion of loan to equity in Norse Energy Holdings, Inc, the company had a receivable to Norse Energy Holdings, Inc of USD 0,6 Million (NOK 3,3 Million)

As of December 31, 2009, outstanding loans and balances, including accrued interest, with subsidiaries (denominated in USD) amounted to NOK 855 Million. Long term intercompany loan to Norse Energy Holdings, Inc amounted to USD 90 Million (NOK 520 Million). The parent company's loans to Brazilian subsidiaries, as well as Norse Energy AS, were classified as short-term, and amounted to USD 58 Million (NOK 334 Million) .

Loans to Naftex and Norse Energy AS at year end 2010 and loans to Naftex at year end 2009 have been written off, as recoverability is uncertain.

## Note 3. General and administrative expenses

### Salaries

The Company had 1 employee at December 31, 2010, and an average of 3,25 employees during the year, compared to 5 employees at December 31, 2009 and an average of 5.5 employees during 2009. The reduction is due to the demerger (see note 16). Wages and salaries are included in general and administrative expenses.

For details relating to remuneration to management, refer to note 9 in the consolidated financial statements.

The Company has two option programs amounting to a total of 18 Million shares, approved by the Annual General Meetings held on May 23, 2006 and May 20, 2008. As of December 31, 2010, 16,2 Million options have been granted (1 Million granted during 2010) of which 5,8 Million options have vested. All options under the plan will be settled in shares.

For further details on the programs, see note 10 in the consolidated financial statements.

### Employee related expenses:

(in NOK thousands)	2010	2009
Wages	11,519	9,546
Employer's contribution	2,461	1,343
Pension costs	100	644
Other compensation	2,109	(57)
<b>Total</b>	<b>16,189</b>	<b>11,476</b>

Wages include severance pay to the former CEO . The amount included in short term liability as of December 31, 2010 was NOK 8,6 Millions including social securitys.

### Board of Directors remuneration

(in NOK thousands)	2010	2009
Dag Erik Rasmussen, Chairman	350	-
Petter Mannsverk Andresen, former Chairman	-	350
Other board members	1,200	1,200
<b>Total</b>	<b>1,550</b>	<b>1,550</b>

### Pensions

The Company is required to have an occupational pension scheme in accordance with the Norwegian law on required occupational pension ("Lov om obligatorisk tjenestepensjon"). The Company has a defined contribution scheme, complying with the requirements. Expenses related to the scheme of NOK 100 Thousand and NOK 416 thousand was incurred during 2010 and 2009, respectively.

### Auditor

Fees (excluding VAT) to the Group's auditors are included in general and administrative expenses and are shown below:

#### Auditor

(in NOK thousands)	2010	2009
<b>Deloitte</b>		
Statutory audit	683	1,092
Audit related services*	721	558
Tax services	41	46
Other	-	41
<b>Total</b>	<b>1,445</b>	<b>1,737</b>

\* Work related to demerger, prospectus, carve out, proforma

## Note 4. Furniture, fixtures and office equipment

(in NOK thousands)	Furniture and fixtures	IT and office equipment	Total
Acquisition cost at January 1, 2010	675	505	1,180
Disposals - demerger (see note 16)	(675)	(505)	(1,180)
Investments	573	21	595
Acquisition cost at December 31, 2010	573	21	595
Accumulated depreciation and impairment at January 1, 2010	(312)	(401)	(713)
Disposals - demerger (see note 16)	312	401	713
Depreciation	(62)	(5)	(67)
Accumulated depreciation at December 31, 2010	(62)	(5)	(67)
Accumulated impairment at December 31, 2010	-	-	-
<b>Net carrying value at December 31, 2010</b>	<b>511</b>	<b>17</b>	<b>528</b>
Depreciation for the year	(62)	(5)	(67)
Impairment loss for the year	-	-	-

As part of the demerger (see note 16), the Company transferred all of its furniture, fixtures and related office equipment to Panoro Energy ASA.

IT and office equipment is depreciated over three years on a straight-line basis, while furniture and fixtures are depreciated over three to ten years also using a straight-line basis.

## Note 5. Bond loans

The Company restructured its bond debt on June 30, 2010 in connection with the demerger of Norse Energy do Brazil S.A. The NEC 01 bond loan of NOK 300 Million was assumed by Norse Energy do Brazil S.A. without recourse. NEC 02, NEC 03, NEC 04 and NEC 05 have been ascribed to the Company's US subsidiary Norse Energy Holdings, Inc. The restructuring entailed a pre-payment of 15% of the outstanding principal in July 2010, a step up of interest rates, aligning the interest periods to quarterly payments, pledging assets in the US as security and extending maturities on the remaining balances after the pre-payment.

As part of the agreement with the bond holders, the Company has guaranteed the debt.

Further, as a result of the restructuring, bondholders, were allocated additional warrants that give the holders rights to subscribe to one new share in the Company at an exercise price of NOK 2,21 per share. The warrants are listed on the OSE under the ticker code "NEC K".

Due to the fact that the warrants are issued by The Company, while the debt in which they are related to have been transferred to the Company's US subsidiary Norse Energy Holdings, Inc, the warrants are now presented as a liability. In prior years the warrants have been presented together with the bond debt.

The Company holds bonds of Norse Energy Holdings, Inc totalling USD 1,1 Million (NOK 5,9 Million) as of December 31, 2010.

For further details on the bonds, see note 20 in the consolidated financial statements.



## Note 6. Other financial income and costs

Other financial income are specified as follows:

(in NOK thousands)	2010	2009
Gain on purchase of treasury bonds	-	1,563
Mark to market treasury bonds	1,227	
Other	-	107
<b>Total</b>	<b>1,227</b>	<b>1,670</b>

Other financial costs are specified as follows:

(in NOK thousands)	2010	2009
Amortization of capitalized loan transaction costs	7,875	5,820
VPS charges	911	546
Loss on disposal of shares in Norse Energy do Brasil S.A.	-	10,153
Loss on disposal of shares in Panoro Energy ASA	61,949	-
Write down shares in Norse Energy AS	100	-
Other	190	167
<b>Total</b>	<b>71,025</b>	<b>16,686</b>

As part of the demerger and listing of Panoro Energy ASA, the company signed up for approximately 10% of the shares. The shares were sold on November 2, 2010 resulting in a loss of NOK 62 Millions.

As part of the restructuring of the bond debt, remaining capitalized loan transaction costs were charged as cost.

During 2009, the Company purchased treasury bonds resulting in a gain of NOK 1,6 Million. The bond is marked to market with gains and losses recognized in profit and loss. A gain of NOK 1,2 Million has been recognized in 2010.

In 2009, the Company sold 30% of the shares in its subsidiary Norse Energy do Brasil for a cash consideration of USD 30 Million. The buyer was Sector Speculare (Private Equity) IV, a fund managed by Sector Omega ASA ("Sector"). Funds managed by Sector are also the largest shareholder in Norse Energy Corp. ASA. The transaction valued Norse Energy do Brasil at an enterprise value of USD 210 Million. Included in this amount was debt of approximately USD 43 Million to the parent company Norse Energy Corp ASA. As a result, the Company recognized a loss of approximately USD 2,9 Million (NOK 10,1 Million), which is included in other financial costs. The USD 10 Million loan from clients of Sector Asset Management was repaid with proceeds from the sale of shares early in the second quarter.

## Note 7. Income tax

Income tax expense for the year:

(in NOK thousands)	2010	2009
Tax payable	-	-
Change in deferred tax	-	-
<b>Income tax expense</b>	<b>-</b>	<b>-</b>

Specification of the basis for tax payable:

(in NOK thousands)	2010	2009
Result for the year	(101,451)	(111,563)
+ Effect of permanent differences	40,092	981
+ Effect of temporary differences	88,059	110,582
Utilization loss carry forward	(26,640)	-
<b>Basis for tax payable</b>	<b>-</b>	<b>-</b>

#### Specification of deferred tax:

(in NOK thousands)	2010	2009
Furniture, fixtures and office equipment	52	(68)
Accounts receivable	(14,428)	(12,690)
Financial instruments	(79,370)	7,827
Pensions and other accruals	(775)	(775)
Tax losses carried forward	(499,525)	(882,280)
Basis for calculating deferred tax asset	(594,046)	(887,986)
Calculated deferred tax asset (28%)	166,333	248,636
Deferred tax asset allowance	(166,333)	(248,636)
<b>Deferred tax asset recognized in the balance sheet</b>	<b>-</b>	<b>-</b>

#### Specification change in loss carried forward

(in NOK thousands)	2010
2009 balance	(882,280)
Correction to the 2009 tax return	5,337
Demerger 40% of loss carry forward	350,778
Current utilization	26,640
<b>Loss carry forward</b>	<b>(499,525)</b>

The tax losses carried forward are available indefinitely to offset against future taxable profits. The deferred tax asset is not recognized in the balance sheet due to uncertainty of income.

### Note 8. Investment in subsidiaries

Investments in subsidiaries are booked at the lower of cost and fair market value. As of December 31, 2010, the holdings in subsidiaries consist of the following:

in NOK thousands, unless otherwise indicated

Company	Headquarters	Ownership interest and voting rights	Carrying value
Norse Energy Holdings, Inc.	Buffalo, NY, USA	100%	569,528
Naftex Energy Corporation	Vancouver, Canada	100%	-
Norse Energy AS	Oslo, Norway	100%	-
<b>Total</b>			<b>569,528</b>

The investment in Norse Energy Corp. USA, was increased by NOK 335 Millions in 2010 by converting debt to equity.

Norse Energy do Brasil S.A., Coplex Petroleo do Brasil Ltda. and New Brazil Holding AS were all spun off as part of the demerger.

### Note 9. Cash and cash equivalents

Restricted cash related to tax withheld from employees amounted to NOK 0,2 Million and NOK 0,5 Million as of December 31, 2010 and 2009 respectively.

## Note 10. Shareholders equity and shareholder information

Nominal share capital in the parent company at December 31, 2010 amounted to NOK 196,646,000,37 consisting of 533,154,566 shares at a par value of NOK 0,37. All issued shares are fully paid. Each share has one vote.

The table below shows the changes in equity in the Company during 2009 and 2010:

(in NOK thousands)	Share capital	Share premium reserve	Other paid-in capital	Treasury shares	Other equity	Total
Equity at January 1, 2009	310,785	1,310	295,605	(92)	118,496	<b>726,104</b>
Share issue, September 2009	31,078	104,890	-	-	-	<b>135,968</b>
Share issue costs (net of tax effect)	-	(4,818)	-	-	-	<b>(4,818)</b>
Employee stock option expense	-	-	-	-	153	<b>153</b>
Result for the year	-	-	-	-	(111,563)	<b>(111,563)</b>
<b>Equity at December 31, 2009</b>	<b>341,863</b>	<b>101,382</b>	<b>295,605</b>	<b>(92)</b>	<b>7,086</b>	<b>745,844</b>
Share issue	94,087	355,026	-	-	-	<b>449,113</b>
Share issue costs (net of tax effect)	-	(22,304)	-	-	-	<b>(22,304)</b>
Transfer share capital to other equity	(170,932)	-	170,932	-	-	<b>-</b>
Demerger	(68,373)	(101,382)	(371,715)	-	-	<b>(541,470)</b>
Employee stock option expense	-	-	-	-	(161)	<b>(161)</b>
Result for the year	-	-	-	-	(101,451)	<b>(101,451)</b>
<b>Equity at December 31, 2010</b>	<b>196,645</b>	<b>332,722</b>	<b>94,822</b>	<b>(92)</b>	<b>(94,526)</b>	<b>529,571</b>

The Company holds 108,605 treasury shares as of December 31, 2010.

The Company has issued 75 Million warrants in connection with the USD 75 Million bond loan which was transferred to Norse Energy Holdings, Inc, in 2010. The warrants give the right to new ordinary shares at NOK 4,52 per share.

The company issued 55 Million Warrants in conjunction with the bond restructuring that occurred on June 30, 2010. The warrants give right to new ordinary shares at 2,21 per share.

### Ownership structure

The Company had 5,610 shareholders at December 31, 2010. The twenty largest shareholders at year-end were:

Shareholder	Number of shares	Holding in %
1 GOLDMAN SACHS INT. - EQUITY (1)	112,761,687	21.15%
2 UBS AG, LONDON BRANCH (1)	22,132,877	4.15%
3 MORGAN STANLEY & CO INTERNAT. PLC (1)	13,303,698	2.50%
4 THE NORTHERN TRUST CO.	8,805,821	1.65%
5 BRUHEIM (2)	8,300,000	1.56%
6 VIKSUND AS	8,100,500	1.52%
7 NORDNET BANK AB	7,982,491	1.50%
8 WESTCAP A/S	7,470,200	1.40%
9 SEB PRIVATE BANK S.A. LUXEMBOURG	7,260,320	1.36%
10 SOLODDEN AS	6,561,394	1.23%
11 SAF INVEST AS	6,000,000	1.13%
12 NORDEA BANK NORGE ASA	5,980,488	1.12%
13 MP PENSJON PK	5,189,600	0.97%
14 FARSTAD	4,479,716	0.84%
15 DANSKE BANK A/S	4,184,877	0.78%
16 TVETERAAS EIENDOMSELSKAP A/S	4,000,000	0.75%
17 GOLDMAN SACHS & CO - EQUITY (1)	3,700,000	0.69%
18 WILH. WILHELMSSEN HOLDING ASA	3,000,000	0.56%
19 NORDEA BANK DENMARK AS	2,942,795	0.55%
20 SKANDINAVISKA ENSKILDA BANKEN	2,867,050	0.54%
<b>Top 20 shareholders</b>	<b>132,261,827</b>	<b>24.81%</b>
Other shareholders	400,892,739	75.19%
<b>Total shares</b>	<b>533,154,566</b>	<b>100.00%</b>

(1) Shares held by funds controlled by Sector Asset Management ASA

(2) Shares controlled by Bjarte Bruheim, Director, Norse Energy Corp ASA

## Shares owned by the CEO, CFO, and board members per December 31, 2010

Shareholder	Position	Number of shares	% of total
Bjarte Bruheim	Director, Norse Energy Corp ASA	8,300,000	1.56%
Odd Næss	Director, Norse Energy Corp ASA	3,176,000	0.60%
Mark Dice	Chief Executive Officer	1,500,000	0.28%
Richard Boughrum	Chief Financial Officer	20,000	0.00%

See note 10 to the consolidated financial statements for the Company's option scheme and granted options.

Amount of shares	Number of shareholders	% of total	Number of shares	Holding in %
1-1,000	574	10.23%	313,273	0.06%
1,001-5,000	1,506	26.84%	4,436,682	0.83%
5,001-10,000	934	16.65%	7,814,997	1.47%
10,001-100,000	2,063	36.77%	75,068,355	14.08%
100,000-1,000,000	470	8.38%	127,100,832	23.84%
1,000,001	63	1.12%	318,420,427	59.72%
<b>Total</b>	<b>5,610</b>	<b>100.00%</b>	<b>533,154,566</b>	<b>100.00%</b>

### Note 11. Guarantee liabilities

Following the Public Limited Companies Act § 14-11 (3), the Company and the demerged entity are jointly and severally liable for the obligations transferred. However, when it comes to the bond loan transferred, the bondholders waived the Company's liability under this paragraph.

As part of the restructuring of the bond debt, the Company became a guarantor for Norse Energy Holdings, Inc, obligations under the amended loan agreement.

See also further details about financial and market risk in note 15 to the consolidated financial statements.

### Note 12. Related parties

The Company leased a parking space in Oslo from the former CEO for NOK 1 500 per month in 2009 and 2010.

### Note 13. Financial market risk and business risk

See details in note 15 in the consolidated financial statements.

### Note 14. Subsequent events

March 24, 2011, the Company completed a private placement for a total of 210 000 000 new shares at NOK 0,80, directed towards Norwegian and international institutional investors. The Extraordinary General Meeting April 15, 2011 voted in favor of the capital increase and also voted in favor of a proposal to offer up to 37 500 000 new shares to existing shareholders that were not offered to participate in the initial offering. The latter repair issue could raise additional NOK 30 Million (USD 5 Million) .

### Note 15. Going concern

The Board of Directors confirms that the annual financial statements have been prepared pursuant to the going concern assumption, in accordance with section 3-3 of the Norwegian Accounting Act, and that this assumption was made based on the financial position of the Company at the time the accounts were approved. This assumption is further based upon the successful outcome of the financial challenges facing the Company as described in this report. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

The Extraordinary General Meeting on April 15, 2011 approved a capital increase after the successful USD 30 million (NOK 168 million) private placement completed March 25, 2011. The private placement is followed by a subsequent issue of up to 37,500,000 additional shares directed to shareholders not participating in the private placement. The latter subsequent issue could raise an additional USD 5.4 million (NOK 30 million). The capital increase, along with the announced strategy of monetizing selected assets or acreage deemed not core held by subsidiaries, enables the Company, through its subsidiaries, to operate in the near term with additional financial flexibility to pursue its Herkimer development program, pipeline capacity expansion and preparation for drilling in

the Marcellus and Utica shale provided larger scale hydro-fracturing regulations are implemented in New York State (see paragraph 5 below).

At present, subsidiaries of the Company, is exploring and drilling the Herkimer sandstone formation exclusively and is operating at a loss. Without further asset sales and capital markets financings and/or refinancing of debt, the cash flow generated from the Herkimer production alone is not expected to generate sufficient cash flow for the Company to both conduct its operations and meet its obligations for bond debt principal repayment in July 2012 through 2014, or sooner in the event debt covenant violations result in the acceleration of debt principal payments into 2011. Currently scheduled principal payments are USD 3.7 million in 2011, USD 35.6 million in 2012, USD 41.2 million in 2013, and USD 9.4 million in 2014. Refer to note 20 in the consolidated financial statements for a further overview of the loan covenants.

In order to address the Company's future debt maturities, where debt is mainly held through its subsidiaries, the Board of Directors has stated that the Company and its subsidiaries should pursue possibilities to monetize assets in addition to capital markets transactions. The sales of the Energy Marketing Business and the Gathering and Transmission Business, held through its subsidiaries, have been announced. Combined, they will generate approximately USD 16.5 million in net cash and will reduce outstanding debt by approximately USD 4.2 million when the transactions close. The Gathering and Transmission Business is subject to regulation by the New York Public Service Commission who must therefore approve the sale. No such regulatory approval is anticipated to be required for the Energy and Marketing Business. The Company is also pursuing the sale of additional assets including its gathering system and right of way in Central New York and potentially farming out portions of Herkimer and/or shale acreage.

In December 2010, the New York State Governor issued an executive order prohibiting the New York State Department of Environmental Conservation from issuing large volume hydro-fracturing permits in New York until the Supplemental Generic Environmental Impact Study (SGEIS) is finalized. The Governor of the State of New York has directed the Department of Environmental Conservation to release the regulations on or about June 1, 2011 with a minimum 30-day comment period to follow. The actual timing of the release and the final regulations cannot be predicted with certainty. A timely and positive outcome of the regulatory process will enable the Company, through its subsidiaries, to explore and drill the Marcellus and Utica formations in New York State on its own and/or to pursue development with partners in industry joint ventures, known as farm outs, or farm-ins, in which partners may provide operating expertise and/or capital contributions to the development of defined acreage. The release of the regulations is also likely to increase the interest of other natural gas production companies and/or midstream natural gas transmission companies in the potential acquisition of certain of the Company's assets held through subsidiaries if they were to be offered for sale. The Company expects a combination of asset sales, through its subsidiaries, and capital markets transactions to enable it to meet its scheduled debt maturities or enable it to refinance them.

## Note 16. Demerger

On January 28, 2010 an Extraordinary General Meeting of shareholders voted in favor of demerging the Company into two distinct businesses by way of listing our Brazil subsidiary, Norse Energy do Brasil S.A. ("NEdB") under its new name, Panoro Energy. The demerger was completed on June 7, 2010 when existing shareholders in Norse Energy received one share of Panoro Energy for every 10 shares of Norse Energy held. Panoro Energy began trading on the Oslo Stock Exchange as of June 8, 2010.

The demerger was accounted for at continuity under NGAAP. All transactions, costs, and revenues associated with the assets, rights, and liabilities which Panoro Energy acquired has been accounted for by them since January 1, 2010.

In the annual accounts, the comparable figures has not been restated. Below is a condensed proforma profit and loss and balance sheet presented as if the demerger happened as of January 1, 2009.

The following assets and liabilities were transferred as part of the demerger, figures as of January 1, 2010

Furniture, fixtures and office equipment	467
Investment in subsidiaries	474,640
Loan to subsidiaries	334,733
Cash and cash equivalents	27,923
Share capital	68,373
Share premium reserve	101,382
Equity	541,470
Bond loans	280,676
Other current liabilities	15,617

## Proforma Income Statement

(in NOK thousands)	Note	Proforma 2009
Total operating income		3,020
Total operating expenses		29,298
<b>Operating profit (loss)</b>		<b>(26,278)</b>
Net financial items		(9,546)
<b>Result before income tax</b>		<b>(35,824)</b>
Taxes		-
<b>Result for the year</b>		<b>(35,824)</b>

## Proforma Balance Sheet

(in NOK thousands)		Proforma
<b>ASSETS</b>		
<b>Non-current assets</b>		
Investment in subsidiaries	8	235,243
Loan to subsidiaries	2	520,339
<b>Total non-current assets</b>		<b>755,582</b>
<b>Current assets</b>		
Other current assets		2,001
Cash and cash equivalents		73,612
<b>Total Current assets</b>		<b>75,613</b>
<b>TOTAL ASSETS</b>		<b>831,195</b>
<b>EQUITY AND LIABILITIES</b>		
<b>TOTAL EQUITY</b>	10	<b>204,374</b>
<b>LIABILITIES</b>		
<b>Long-term liabilities</b>		
Bond loans	5	550,254
<b>Total long term liabilities</b>		<b>550,254</b>
<b>Current liabilities</b>		
Bond loans	5	50,706
Other current liabilities		25,861
<b>Total current liabilities</b>		<b>76,567</b>
<b>TOTAL LIABILITIES</b>		<b>626,821</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>831,195</b>





# AUDITOR'S REPORT



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To the Annual Shareholders' Meeting of Norse Energy Corp. ASA

## INDEPENDENT AUDITOR'S REPORT

### Report on the Financial Statements

We have audited the accompanying financial statements of Norse Energy Corp. ASA, which comprise the financial statements for the parent company and the financial statements for the group. The financial statements for the parent company comprise the balance sheets as at December 31, 2010, the income statement and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information. The financial statements for the group comprise the statement of financial position as at December 31, 2010, the statement of comprehensive income, the statement of changes in equity, 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 Norwegian accounting act and accounting standards and practices generally accepted in Norway for the company accounts and in accordance with International Financial Reporting Standards as adopted by EU for the group accounts, and for such internal control as The Board of Directors and the Managing Director determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

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

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

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

### *Opinion on the financial statements for the parent company*

In our opinion, the financial statements of the parent company give a true and fair view of the financial position of Norse Energy Corp. ASA as at December 31, 2010, and of its financial performance and its

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cash flows for the year then ended in accordance with the Norwegian accounting act and accounting standards and practices generally accepted in Norway.

*Opinion on the financial statements for the group*

In our opinion, the financial statements of the group give a true and fair view of the financial position of the group Norse Energy Corp. ASA as at December 31, 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

*Emphasis of Matter*

Without qualifying our opinion, we draw attention to Note 15 Going concern in the financial statements for the parent company, Note 30 Going concern in the financial statements for the group and the report from the Board of Directors which indicate that the Company is facing financial challenges that may cast significant doubt about the Company's ability to continue as a going concern, Management's plans concerning these matters are also discussed in the referenced notes and in the report from the Board of Directors.

The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

**Report on Other Legal and Regulatory Requirements**

*Opinion on the Board of Directors' report and the coverage of the loss*

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 and the going concern assumption, and the proposal for the coverage of the loss complies with the law and regulations and that the information is consistent with the financial statements.

*Opinion on Registration and Documentation*

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that the company's 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.

Oslo, April 15, 2011  
Deloitte AS

Mette Herdlevær  
State Authorised Public Accountant (Norway)



# STATEMENT ON CORPORATE GOVERNANCE

Norse Energy Corp. ASA ("Norse" or "the Company") aspires to ensure confidence in the Company and the greatest possible value creation over time through efficient decision making, clear division of roles between shareholders, management and the Board of Directors (the Board), as well as adequate communication. Norse seeks to comply with all the requirements covered in the Norwegian Code of Practice for Corporate Governance (the "Code"). The latest version of the Code is dated 21 October 2010 and is available on the website of the Norwegian Corporate Governance Board, [www.ncgb.no](http://www.ncgb.no). The Code is based on the principle that companies must either comply with the Code or explain why it has chosen an alternative approach to specific recommendations ("comply or explain").

## 1 Implementation and Reporting on Corporate Governance

The commitment of the Board of Directors of Norse Energy Corp. ASA to sound corporate governance is reflected in its adoption of the 15 principles in Code as set forth in this report. A Board of Directors Report covering every section of the code of practice will be included in every annual report. Additional information on the Company's corporate values and ethical guidelines are set forth on the Company's web site. The governance principles were updated and adapted by the Board of Norse Energy Corp. ASA on 15 April 2011.

## 2 Business

The Company's business purpose is defined in the Articles of Association §2 which states: "The company's business shall consist of exploration, production, transportation and marketing of oil and natural gas and exploration and/or development of other energy forms, sale of energy as well as other related activities. The business might also involve participation in other similar activities through contribution of equity, loan and/or guarantees."

The business purpose clause ensures that shareholders have control of the business and its risk profile without limiting the Board or management's ability carry out strategic and financially viable decisions within its defined purpose.

The group has three reportable segments, which are the group's strategic business units. The units offer different products and are managed separately because they require different technological and different financial and marketing strategy. The business units are exploration and production of natural gas in the US, gathering and transmission (pipeline system) in the US, and the energy marketing division in the US. Following completion of a divestment in 2011, the company will retain only the business area exploration and production. Clear objectives and strategies are set forth in this document and related documents including: "Directives for the Work of the Board of Directors", Directives to the Chief Executive Officer", and "Directives to the Chief Financial Officer".

## 3 Equity and Dividends

The equity and equity ratio of Norse 31 December 2010 was at a low level. The Board of Directors has initiated steps to capitalize and fund the Company with a combination of debt and equity that is appropriate for the Company's investment objectives and risk profile. On 25 March 2011 the Company did complete a successful private placement of USD 30 million. As a growth company, the Company does not expect to pay dividends to shareholders for the foreseeable future. The Company is an active issuer of equity capital in the public and private markets and complies strictly with the rules of the Oslo Stock Exchange and the recommendation of the Code regarding share capital increases. The Company does not engage in a systematic share repurchase program as it would be inappropriate given its capital requirements. The Board will seek the mandate of the shareholders before engaging in any share repurchase program. The Board does not seek mandates from the shareholders that are valid for more than one year, except for option programs.

## 4 Equal Treatment of Shareholders and Transactions with Close Associates

Norse has one class of shares representing one vote at the Annual General Meeting. Any decision to waive the pre-emption rights of existing shareholders to subscribe for shares in the event of an increase in share capital will be justified and the justification publicly disclosed. The Articles of Association contains no restriction regarding the right to vote. All share transactions will be at market price, or a premium to market price. The Company will not deviate from the principle of equal treatment of all shareholders. Independent valuations will be obtained when circumstances warrant such a valuation. The Board requires affirmative disclosure of any conflict of interest of Board members or executive personnel.

## 5 Freely Negotiable Shares

The Norse Energy Corp. ASA shares are listed on the Oslo Stock Exchange and are freely negotiable. There are no restrictions on negotiability in the Company's Articles of Association.

## 6 General Meetings

Norse Energy Corp. ASA's Annual General Meeting will be held within the end of June each year.

The Company encourages shareholders to participate in shareholders' meetings. An invitation and agenda, including proxy material, will be sent out three weeks prior to the meeting to all shareholders in the Company. The resolutions and supporting information distributed will be sufficiently detailed and comprehensive to allow shareholders to form a view on all matters to be considered at the meeting. The meeting invitation will also be distributed as a stock exchange notification and posted on the Company's website at [www.norseenergy.com](http://www.norseenergy.com) three weeks prior to the meeting.

An independent chairman for the General Meeting will be appointed. The Chairman of the Board, members of the nomination committee, the auditor and the CEO of the Company will normally be present at the AGM. Arrangements will be made for the General Meeting to vote separately on each matter and each candidate nominated for the Companies corporate bodies. The minutes from the general meetings will be released on the Company's website and distributed as a stock exchange notification. Shareholders who are unable to attend in person will be given the opportunity to vote through proxy. The Company will nominate a person who will be available to vote on behalf of shareholders as their proxy. A form for the appointment of a proxy will be prepared. The proxy will allow separate voting instructions for each matter to be considered by the meeting and for each of the candidates nominated for elections.

## 7 Nomination Committee

Norse Energy Corp. ASA has a nomination committee as set forth in article 8 of the Company's Articles of Association. The nomination committee's members and its chairman are elected by the General Meeting, which also determines remuneration payable to committee members. The nomination committee's duties are to propose to the General Meeting shareholder elected candidates for election to the Board of Directors, and to propose remuneration to the Board. The nomination committee will justify its recommendations. The members of the nomination committee will be selected to take into account the interests of shareholders. The majority of the committee will be independent of the board of directors and the executive personnel. At least one member of the nomination committee will not be a member of the Board. No more than one member of the nomination committee will be a member of the board of directors, and any such member should not offer himself for re-election. The nomination committee will not include the Company's chief executive or any other executive personnel. The Company will provide information on the membership of the committee and any deadlines for submitting proposals to the committee. The majority of the nomination committee will be independent of the Board of Directors and the day-to-day management. The Annual General Meeting may adopt procedures for the nomination committee.[According to the Code this is a recommendation].

## 8 Board of Directors –Composition and Independence

The members of the Board represent a wide range of experience, including shipping, offshore exploration and development, energy, banking, and investment. The composition of the Board of Directors is designed to ensure that it can operate independently of any special interests. Members of the Board are elected for a period of two years. The service periods of the Board members are staggered so that the entire Board is not replaced at the same time. The Company has not experienced a need for a permanent deputy Chairman. If the Chairman cannot participate in the Board meetings, the Board will elect a deputy Chairman on an ad-hoc basis.

The Company's website and annual report provides detailed information about the Board members expertise and independence, as well as their record of attendance at Board meetings. No members of executive management are members of the Board of Directors. At the present time all of the Company's directors are considered to be independent of management, material suppliers, or contract counterparties. More than two members of the Board are independent of the major shareholders (shareholding of more than 10%).

## 9 The Work of the Board of Directors

The Board of Directors evaluates its performance and expertise annually. The Board prepares an annual plan for its work with emphasis on objectives, strategy and implementation. The Board has issued instructions for its own work, as well as for the executive management (CEO and CFO), with clear internal allocation of responsibilities and duties. The Board acts to ensure independent consideration of material matters in which the Chairman of the Board is personally involved. The Company has an audit committee with an independent majority. The Company has an independent compensation and remuneration committee.



## 10 Risk Management and Internal Control

The management of Norse is responsible for establishing and maintaining adequate internal control of financial reporting. The internal control of financial reporting is supervised by the Chief Financial Officer. The Board has delegated to the Audit Committee the review of internal controls and systems for risk management. The Audit Committee conducts an annual review of the most important areas of exposure to risk. The Company's Annual report discusses the main features of the Company's internal control and risk management systems as they relate to the Company's financial reporting. The Company's internal control encompasses the Company's corporate values, ethical guidelines and guidelines for social responsibility which are also articulated in the Company's Code of Conduct which is available on the Company's web site.

## 11 Remuneration of the Board of Directors

The remuneration of the Board reflects the Directors' responsibility, expertise, the complexity and scope of work, as well as the Directors' time commitment. The remuneration to the Board of Directors will be decided at the Annual General Meeting each year. The remuneration to the Board of Directors is not linked to the Company's performance. No share options are granted to the Board members. If members of the Board are to take on specific assignments for the Company in addition to their appointment as a member of the Board, such assignments will be disclosed to the full Board. Remuneration to Directors, in addition to normal director's fees, if any, is specifically identified in the Annual Report.

## 12 Remuneration of the Executive Personnel

The Board has established guidelines for the remuneration of the executive personnel in accordance with the Norwegian Public Limited Liability Companies Act section 6-16a. The guidelines set out the main principles applied in determining the salary and other remuneration of the executive personnel. The guidelines ensure convergence of the financial interests of the executive personnel and the shareholders. Performance-related remuneration is linked to value creation for shareholders or the Company's earnings performance over time. Annual arrangements are designed to incentivize performance and be based on quantifiable factors over which the employee has influence. Senior managers have annual written performance objectives for the year.

## 13 Information and Communication

The Company has established guidelines for the Company's reporting of financial and other information.

The Company publishes an annual financial calendar including the dates the Company plans to publish the quarterly results and the date for the AGM. The calendar can be found on the Company's website, and will also be distributed as a stock exchange notification and updated on Oslo Stock Exchange's website. The calendar is published at the end of a fiscal year, according to the continuing obligations for companies listed on the Oslo Stock Exchange. The calendar is also included in the Company's quarterly financial reports.

All shareholders' information is published simultaneously on the Company's web site and to appropriate financial news media. The Company has established guidelines for the Company's contact with shareholders, other than through general meetings. Norse normally makes four quarterly presentations a year to shareholders, potential investors and analysts in connection with quarterly earnings reports. The quarterly presentations are normally simultaneously broadcasted over the Internet to facilitate participation by all interested shareholders, potential investors and members of the financial community. The Company also makes investor presentations at conferences in and out of Norway. The information packages presented at such meetings are published simultaneously on the Company's web site.

Norse Energy's website, [www.norseenergy.com](http://www.norseenergy.com), contains current and selected historical information regarding the Company, its activity and contact information. The website is updated on a regular basis. The Chairman, CEO, CFO and Director of Investor Relations of Norse Energy are the only people who are authorized to speak to the news media, unless otherwise described or approved by the Chairman, CEO and/or CFO.

## 14 Takeovers

The Board recognizes its duty to ensure that shareholders in the Company are treated equally. The Board of Directors does not hold any authorizations as set forth in Section 6-17 of the Securities Trading Act, to effectuate defense measures if a takeover bid is launched on Norse which would be a hindrance or obstruction to take over proposals. In the event of a takeover proposal, the Board will make a recommendation to shareholders to accept or reject the offer. If it is unable to give a recommendation, the Board will explain the rationale for not making a recommendation. The Board will in its statement express whether the view expressed is unanimous. If the statement on a bid is not unanimous, it will explain the basis on which specific members of the Board have excluded themselves. The Board will obtain an independent expert valuation and make the valuation and explanation available to the public no later than the time of disclosure of the Board's recommendation.

## 15 Auditor

The auditor submits an annual audit plan to the audit committee. The auditor participates in meetings of the Board that deal with the annual accounts. In its annual scope of audit the auditor reviews any material changes in the Company's accounting principles, comments on any estimates, reports all material disagreements with management, and reviews the Company's internal control procedures, including identified weaknesses and proposals for improvement. The auditor has met with the Board without the presence of the CEO, CFO, or any other member of the executive management present. The Board has established guidelines for the use of the auditor by the Company's executive management for non-audit services. The Board must report the remuneration paid to the auditor at the annual general meeting, including details of the fee paid for audit work and any fees paid for other specific assignments. Deloitte is the company's current audit firm.





## OTHER INFORMATION

### Glossary

<b>Bbl</b>	One barrel of oil, equal to 42 US gallons or 159 liters
<b>Bcf</b>	Billion cubic feet
<b>Bm<sup>3</sup></b>	Billion cubic meter
<b>BOE</b>	Barrel of oil equivalent
<b>Btu</b>	British Thermal Units, energy needed to heat one pound of water by one degree Fahrenheit
<b>Dth</b>	Decatherm, the approximate energy equivalent of burning 1000 cubic feet of natural gas
<b>EBITDA</b>	Earnings (Net Income) before Interest, Taxes, Depreciation and Amortization and viewed by many financial analysts as a short form estimate of cash from operations, although it is not a measurement recognized in the accounting literature
<b>EBITDAX</b>	An Oil and Gas industry term which adds back certain Exploration costs, such as the Company's acquisition of 3D Seismic, to EBITDA. Exploration costs, such as 3D Seismic, are not operating expense in the sense that they vary with operational activities. They are more like capital spending investments in that they are large expenditures which provide value to development activities across a number of years and are not likely to be recurring. The accounting literature recognizes Exploration costs as Operating Expense which reduces EBITDA for this type of non-recurring expense.
<b>HBP</b>	Hold by Production means holding the future right to develop all of the acreage in all leases in the drilling unit in all geological formations for life of the producing well.
<b>IP</b>	Initial production
<b>Mcf</b>	Thousand cubic feet
<b>Mcf/d</b>	Thousand cubic feet per day
<b>MMcf</b>	Million cubic feet
<b>MMBOE</b>	Million barrels of oil equivalents
<b>MMBtu</b>	Million British thermal units
<b>MMm<sup>3</sup></b>	Million cubic meters
<b>Spud</b>	The initial contact of a drill bit with the ground surface as the drilling of a well begins
<b>Tcf</b>	Trillion cubic feet
<b>1P</b>	Proved Reserves are those quantities of reserves, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations.
<b>2P</b>	Probable Reserves are those additional Reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves.
<b>3P</b>	Possible Reserves are those additional reserves which analysis of geoscience and engineering data suggest are less likely to be recoverable than Probable Reserves.
<b>2C</b>	Contingent Resources – those quantities of resources estimated as of a given date to be potentially recoverable from known accumulations by application of development projects but which are not considered to be commercially recoverable due to one or more contingencies



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