Panoro Energy

ANNUAL REPORT 2010

CONTENTS

FINANCIAL CALENDAR

May 13, 2011
First Quarter 2011 Results and Annual General Meeting

August 11, 2011
Second Quarter 2011 Results

November 4, 2011
Third Quarter 2011 Results

COMPANY OVERVIEW

Panoro Energy ASA is an independent E&P company with a balanced portfolio of high quality assets in the South Atlantic region. The Company has offices in London, Oslo and Rio de Janeiro. Panoro Energy was formed through the merger of Norse Energy's former Brazilian business and Pan-Petroleum on June 29, 2010. The Company is listed on the Oslo Stock Exchange with ticker PEN.

COMPANY OVERVIEW

KEY FIGURES	2010
Revenues (USD million)	44.4
EBITDA (USD million)	15.4
EBIT (USD million)	4.4
Net profit/loss (USD million)	(15.2)
2P Reserves (MMBOE)	35.1
2C Contingent Resources (MMBOE)	139.1
2010 Production (BOE/day)	3,894
Share price Dec. 31, 2010 (NOK)	8.40

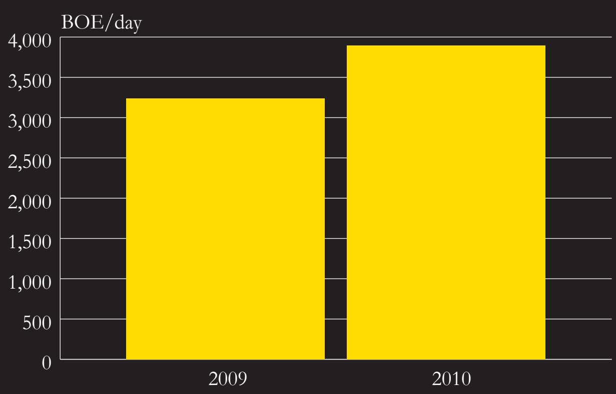
HIGHLIGHTS AND EVENTS

- EBITDA of USD 15.2 million
- Group production of 3,894 BOE/day
- Listing of Panoro Energy ASA on the Oslo Stock Exchange June 8, 2010, completing the demerger from Norse Energy Corp. ASA
- Merger between Panoro Energy ASA and Pan-Petroleum Ltd. completed June 29, 2010
- Completed gross USD 65 million equity raise in connection with the merger
- Positive production test from the MKB project in Congo-Brazzaville
- Closed sale of the Ajapa field, offshore Nigeria for a consideration of USD 30 million
- Successful completion of USD 140 million 1st lien bond issue

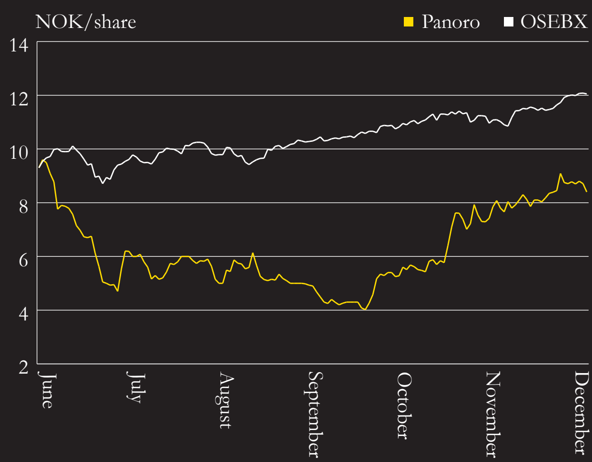
Subsequent events:

- Signed a farm-down agreement for three exploration blocks in Brazil for a consideration of USD 15 million and carried drilling of three deep high impact wells
- Operator submitted new development plans for the Cavalo Marinho and Estrela do Mar in Brazil
- Raised approximately NOK 550 million through share issue at NOK 7.80 per share

MANATI NET PRODUCTION



SHARE PRICE DEVELOPMENT



ASSETS

BRAZIL

- 10% interest Manati gas field (BCAM-40 block), pipeline, gas plant and production platform, Camamu-Almada Basin
- 10% interest Camarão Norte discovery (BCAM-40 block), Camamu-Almada Basin
- 20% interest Sardinha field, Camamu-Almada Basin (under reassignment to Petrobras)
- 35% interest Coral field, Santos Basin
- 65% interest Estrela do Mar field, Santos Basin
- 50% interest Cavalo Marinho field, Santos Basin
- 50%* interest SM-1035, SM-1036 and SM-1100 blocks

  * 15% post farm-out in January 2011

CONGO-BRAZZAVILLE

- 20% interest in Mengo-Kundji-Bindi (MKB) license, onshore

GABON

- 33.33% interest in Dussafu Marin license, offshore

NIGERIA

- 6.502% participating interest (12.1913% revenue interest) in OML 113 Aje Field, offshore
- 40% interest in OML 90 Ajapa field, offshore (divested in November 2010)
- 10% interest in Nigeria-São Tomé JDZ block 3 (relinquished October 2010)

Panoro Offices

CEO LETTER

The establishment of Panoro Energy created an independent oil and gas company with an exciting portfolio on both sides of the South Atlantic basin, combining the assets of the former Norse Energy do Brasil with Pan-Petroleum's assets in Congo-Brazzaville, Gabon and Nigeria. The business merger created great opportunities but also brought plenty of challenges, and at the end of the year we were pleased to be able to report that we had achieved several items on the business plan we presented in connection with our Oslo Stock Exchange listing on June 8, 2010.

The financial platform of the Company needed to be strengthened, and we have taken important steps to achieve this through asset sales, refinancing and capital increases. At the time of listing, the Company had raised USD 65 million of new equity. In addition, the sale of the Ajapa field offshore Nigeria was closed in November 2010, with proceeds of USD 30 million. In Brazil, the Company has farmed down part of its exploration assets. The USD 15 million we will receive on closing effectively covers the historic costs we have incurred to date, and our new partner Vanco will also carry our portion of the costs for the drilling of one well in each of these three promising exploration blocks. Our balance sheet and financial flexibility have also been improved by replacing our USD 125 million bonds and bank debt with a new USD 140 million bond issue in 2010. This was followed in early 2011 by an equity issue generating proceeds of NOK 550 million. We are delighted to see that we are able to attract that kind of interest in the capital markets.

Our production and development assets have also had a good year. The Manati field in Brazil reached record production in 2010 and is set to generate a low-risk cash flow for years to come. On the other side of the Atlantic we have made progress on the Mengo-Kundji-Bindi (MKB) block onshore Congo-Brazzaville, where in 2010 we achieved first production through a test which confirmed that commercial oil rates could be achieved. We look forward to resuming drilling with a six-well programme in mid-2011. In the Santos basin offshore Brazil we have also seen good progress. In January 2011, the operator Petrobras submitted an integrated development plan that includes our Cavalo Marinho and Estrela do Mar fields as well as other fields in the region. This makes provision for an integrated development with a shared gas export system for the fields, which should be to the benefit of all players in the area. Final concept selection is planned for later this year, with production start-up scheduled for 2015. In Nigeria, commercial evaluations continue for the Aje field offshore.

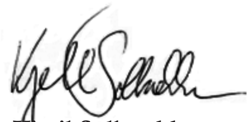
In terms of exploration, 2010 was a year of positioning ourselves for an exciting 2011. Panoro will shortly be drilling its first exploration well, targeting the Ruche prospect in the Dussafu Marin licence, offshore Gabon. In March 2011, following the signing of our farmout agreement with Vanco, we entered into the second exploration period on our three licences in the Santos basin, committing to three exciting exploration wells in the next two years. We currently expect these to be drilled in 2012.

Summing up, we have made good progress with the ongoing projects and high-potential prospects in our portfolio. Continued success will require a lot of hard work; not only with the efficiency of our own operations, but also with demanding partners and other stakeholders. Working in areas like Congo and Brazil requires a local presence, local knowledge and a thorough understanding of all stakeholder interests, in addition to sound technical and economical solutions. Panoro Energy's strong network and good standing in both areas have been built up over time by experienced and highly qualified staff, working closely in English, French and Portuguese with local colleagues, as they continue to drive our business forward.

> "Panoro Energy will stay focused on developing and expanding its activities in Congo and Brazil and, with an aim to high-grade our portfolio, we plan to take a more opportunistic approach to the rest of the assets.

Looking ahead, Panoro Energy will stay focused on developing and expanding its activities in Congo and Brazil and, with an aim to high-grade our portfolio, we plan to take a more opportunistic approach to the rest of the assets. While pushing our core projects through the value chain we will also evaluate ways of further expanding our exploration portfolio. We will thus be an active player in the asset market, through both M&A activities and licence acquisitions, always with value creation for our shareholders as the overriding goal.

The South Atlantic is a vast playground for the energy industry, and we are excited about the opportunities we see. Our work has just begun.



Kjetil Solbrække
CEO, Panoro Energy ASA

Kjetil Solbrække
CEO, Panoro Energy ASA

COMPANY OPERATIONS

Panoro Energy currently has assets in two of the world's most prolific petroleum regions; Brazil and West-Africa. In Brazil the Company has an interest in three main projects of which one is a producing field. In West-Africa the Company is engaged in projects in Congo-Brazzaville, Gabon and Nigeria.

BRAZIL – CAMAMU ALMADA BASIN

Manati (10% interest)
The Manati natural gas field is located inside the BCAM-40 Block and was discovered in October 2000. The operator of the field is Petrobras. The field is a well defined structural play, where the main reservoir is a thick sandstone section with high porosity and permeability, around 300 meters of gross section and 200 meters of net pay. Shales are the sealing rocks. The field has a single gas/water contact at 1,590 meters of depth, and is limited to the west by an unconformity, to the east by a down-to-the-basin fault, and to north and south by structural dips.

The development of the Manati field was carried out between 2004 and 2007, through (i) the drilling of six development wells, (ii) the construction of a natural gas processing plant located in São Francisco do Conde; and (iii) the construction of an approximately 120 km long and 24 inch diameter pipeline to connect the offshore platform and the natural gas processing plant.

For the full year 2010, natural gas production from the Manati field in Brazil averaged 6.19 MMm3/day (~3,900 boe/day net to PEN), an increase of approximately 20% compared to 2009. Panoro Energy expects 2011 field production to average around 6.00 MMm3/day (~3,700 boe/day net to PEN), with seasonal variances.

The price for Manati gas is fixed in Brazilian Reais and annually adjusted for Brazilian inflation (IGPM index). During 2010, the IGPM index increased 11.5%, resulting in the price for 2011 being 11.5% higher than the price received in 2010. Given the current USD/BRL exchange rate, the price including sales taxes would be above USD 9.00 per MMbtu.

The negotiation for an amended gas contract has been completed and is only pending Petrobras Board approval. It is anticipated that the amended contract will be signed during Q2-11. When in

Camamu Almada Basin

force, it will constitute a depletion contract increasing the contract volumes from 23 Bcm to 30 Bcm plus any volumes in excess of the estimated 2P volume of 30 Bcm. The unit gas price for the amended contract is the same as in the original contract, with certain adjustments to the Take or Pay levels.

Camarão Norte (part of BCAM-40 block, 10% interest)

Through drilling of the BAS-131 well in the southern part of BCAM-40 Block, the consortium discovered an oil and natural gas reservoir inside the BCAM-40 Block. The consortium declared commerciality of the BAS-131 discovery and named it «Camarão Norte» (CRN). This field was discovered in 2001, 9 km south of the Manati field, and extends to the south into the BM-CAL-4 block which is 100% owned by El Paso.

The field reservoirs of the Camarão Norte are of Sergi sandstones (same as the Manati field). The CRN is a ring-fenced area of 17 square km in 40 meters of water depth.

In September 2007, El Paso declared commerciality of the field in the BM-CAL-4 block and proposed the name of Camarão for the field. According to the Brazilian Petroleum Law, the two areas of the field have to be unitized and a single development plan has to be proposed to ANP. The unitization discussions continue during 2011.

BRAZIL – SANTOS BASIN

BS-3 Project (Cavalo Marinho (50% interest), Estrela do Mar (65% interest) and Coral redevelopment (35% interest)

The Company has defined the BS-3 Integrated Project to include the Cavalo Marinho (50% interest), Estrela do Mar (65% interest), Coral re-development (35% interest), Caravela (100% Petrobras) and a pipeline to shore.

The Company acquired a 27.5% interest in the Cavalo Marinho Field in 2001 and subsequently increased its interest to 42.5% in 2005 and further to 50.0% in 2006. The Company's consortium partners in the Cavalo Marinho Field are Petrobras, the operator with an interest of 35.0%, and Brasoil with an interest of 15% in the field.

The Company acquired a 27.5% interest in the Estrela do Mar field in 2001 and subsequently increased its interest to 57.5% in 2005 and to 65% in 2006. The Company's partner in the Estrela do Mar field is Petrobras, which holds a 35% interest and serves as operator of the asset.

The Company acquired a 27.5% interest in the Coral field through its subsidiary Coplex in 2001. The interest was subsequently increased with the acquisition of an additional 7.5% interest in 2006. The partners in the field are Petrobras, operator with an interest of 35%, Queiroz Galvao with an interest of 15%, and Brasoil with an interest of 15%. The field produced approximately 12 million barrels of oil from 2003 to 2008, and is considered for redevelopment as part of the BS3 Integrated project.

Updated development plans for the Cavalo Marinho and Estrela do Mar fields were filed to the Brazilian National Petroleum Agency («ANP») on January 13, 2011. This was an important milestone on the way to a final investment decision and ultimately production from the BS-3 fields.

Cavalo Marinho field (CVM), 50% interest

The development concept for Cavalo Marinho includes a FPSO (50,000 bbl/day capacity) and a tie-in to the Tiro/Sidon (100% Petrobras) gas export system to shore for onshore processing, to be shared with the Caravela field (100% Petrobras). Production from the fields is scheduled to commence in Q1-2015.

Estrela do Mar field (EdM), 65% interest

The development concept for Estrela do Mar was filed as a stand-alone development for the oil, with the gas produced through the same gas export system as the other fields in the area. Integration of Estrela do Mar as a satellite connection to a common FPSO will be evaluated. Production from this field is scheduled to commence in Q1-2016.

The development plan for Estrela do Mar also includes an extended production test in the B1 reservoir, with the objectives to both understand reservoir productivity and demonstrate the economic potential to produce this reservoir in combination with the B2 reservoir.

Coral field, 35% interest
Studies are planned to decide when, whether and how to integrate a redevelopment of the Coral field as part of the development for the area.

SM-1035, SM-1036, SM-1100 exploration blocks (15% interest, pending ANP approval)
The Company was awarded the SM-1100, SM-1035 and SM-1036 blocks in the 9th concession round in November 2007, by the Brazilian Petroleum Authorities, ANP. The Company was awarded operatorship of the three blocks, with 50% interest in each and with Brasoil being awarded the other 50%.

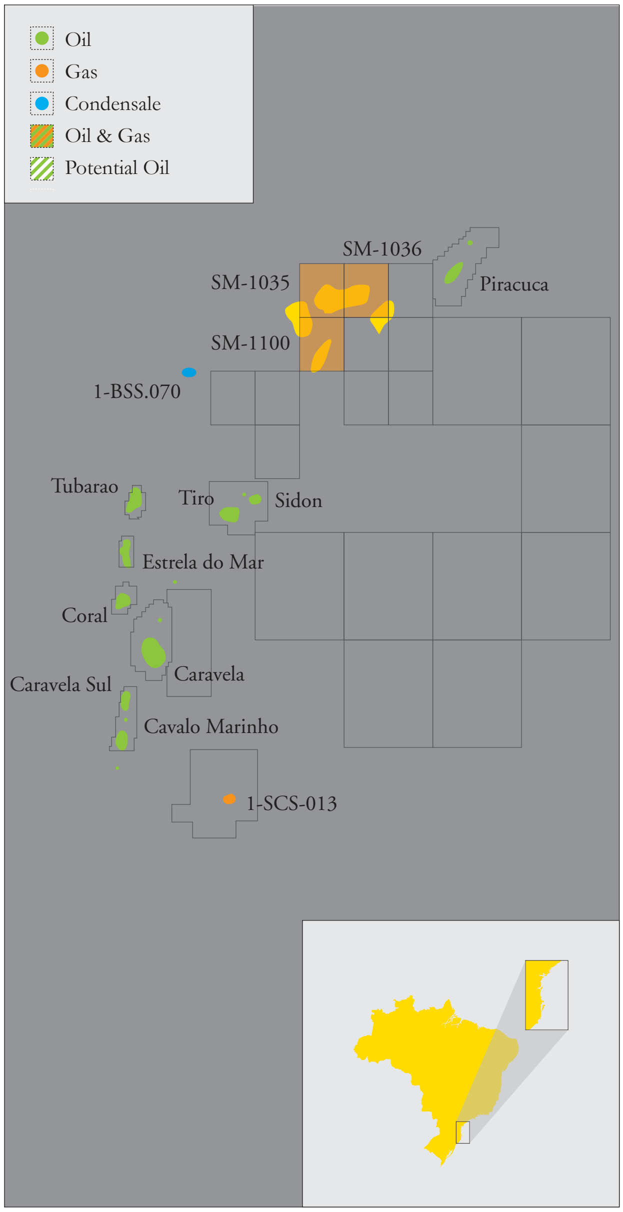
The three blocks are located adjacent to each other, about 100 kilometres northeast of the Coral field, in about 200 meters of water depth with expected reservoir characteristics similar to the Company's other assets in the area. These exploration blocks, which cover an area of approximately 510 square kilometers, are anticipated to hold significant exploration potential.

During 2010, the Company worked to further interpret 3D seismic on the blocks and prepared a data room in preparation for a farm-out. In January 2011, the Company signed a farm-out agreement to assign 35 percentage-points of its 50% interest to Vanco. This assignment is subject to approval from the Brazilian National Petroleum Agency (ANP). Upon ANP approval, Vanco will hold a 70% working interest as operator of the licenses.

Upon ANP approval, the Company will receive net proceeds of approximately USD 15 million from Vanco, covering Panoro's historical costs on the licenses. Vanco will finance Panoro's share of drilling costs for three exploration wells, one on each license. Furthermore, Vanco will be entitled to recover the financed portion of successful wells and half the financed portion of unsuccessful wells from Panoro's share of future production from discoveries made on the licenses.

The transaction includes an option for the Company to increase its working interest in the licenses to 20% that need to be exercised prior to commencement of drilling the first exploration well. In that event, Panoro will have to fund 5% of the past costs, work program costs and future drilling costs of the wells.

Santos Basin



CONGO-BRAZZAVILLE

Mengo-Kundji-Bindi (20% interest)

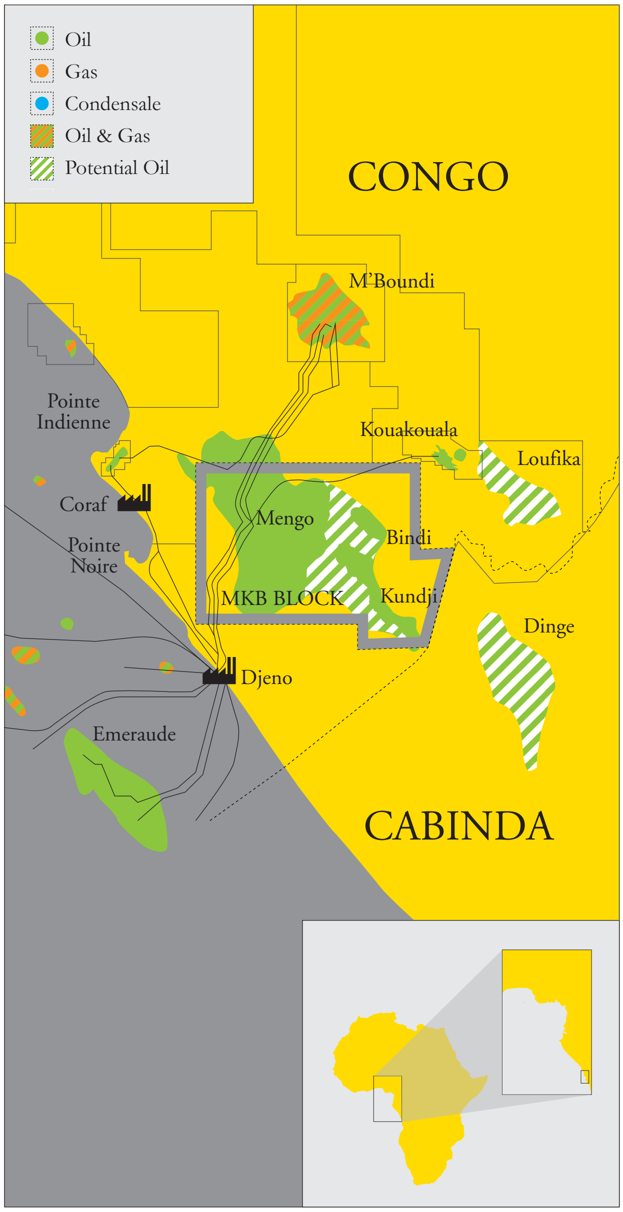
The onshore Mengo-Kundji-Bindi (MKB) permit includes three fields with potentially very large STOIIP, but low recovery from the pre-salt Mengo Sandstone reservoirs. The fields were discovered and produced in the 1980's by Elf and abandoned in 1992. The oil is 32°API and waxy.

The Congolese state oil company Société Nationale des Pétroles du Congo («SNPC») is the operator of the MKB Permit, with Société Nationale d'Opérations Pétrolières de Côte d'Ivoire («PetroCI») holding another 20% interest. SNPC drilled two new wells (KUN-4BIS and KUN-5) in the Kundji Field in 2009. These were hydraulically fractured using modern techniques and put on a long-term test in 2010 to demonstrate the viability of a redevelopment project.

Operations and testing to date have confirmed sufficient permeability and reservoir frackability, and oil flowing to surface without any formation water. During the testing program, Kun-4bis has shown capacity to produce 600 bopd and the KUN-5 well has shown capacity to produce 300 bopd. Combined production from these two wells is expected to decline to a stable rate of 500-600 bopd after one year of production.

Drilling of a further six wells as part of the pilot program is scheduled to commence late in the first half of 2011 and the wells are expected to be opened for commercial production in the second half of 2011. Following this initial pilot programme, the MKB Joint Venture will evaluate a full-field development.

Mengo-Kundji-Bindi



NIGERIA

OML 113 Aje field (6.502 paricipating interest, 12.19% revenue interest)

Panoro Energy has a 12.19% revenue interest (6.502% participating interest) in OML 113, which is operated by Yinka Folawiyo Petroleum (YFP) and located in the western part of offshore Nigeria adjacent to the Benin border. The license contains the Aje field as well as a number of exploration prospects.

Aje field was discovered in 1997, in water depths ranging from 100-1500m. Unlike the majority of Nigerian fields which are Tertiary sandstones, Aje has multiple oil, gas and gas condensate reservoirs in the Turonian, Cenomanian and Albian sandstones, and as such has more affinity with the recent Jubilee and Tweneboa discoveries offshore Ghana.

Four wells have been drilled to date on the Aje field. Aje-1 and -2 tested oil and gas condensate at high rates. Aje-4, drilled in early 2008, logged significant pay and confirmed the presence of four productive reservoirs. The Aje field has full 3D seismic coverage.

The Aje field development is being managed by Chevron, as Technical Advisor to Yinka Folawaiyo Petroleum. There is a gas sales opportunity available to the partnership, via access to the West Africa Gas Pipeline («WAGP»). The WAGP was commissioned in May 2009 to provide Nigerian gas to end-users in Benin, Togo and Ghana, and is routed directly through OML 113 only 5km from the Aje field. The location of the Aje field only 43km south west of Lagos may also provide a ready market for gas and associated LPG's.

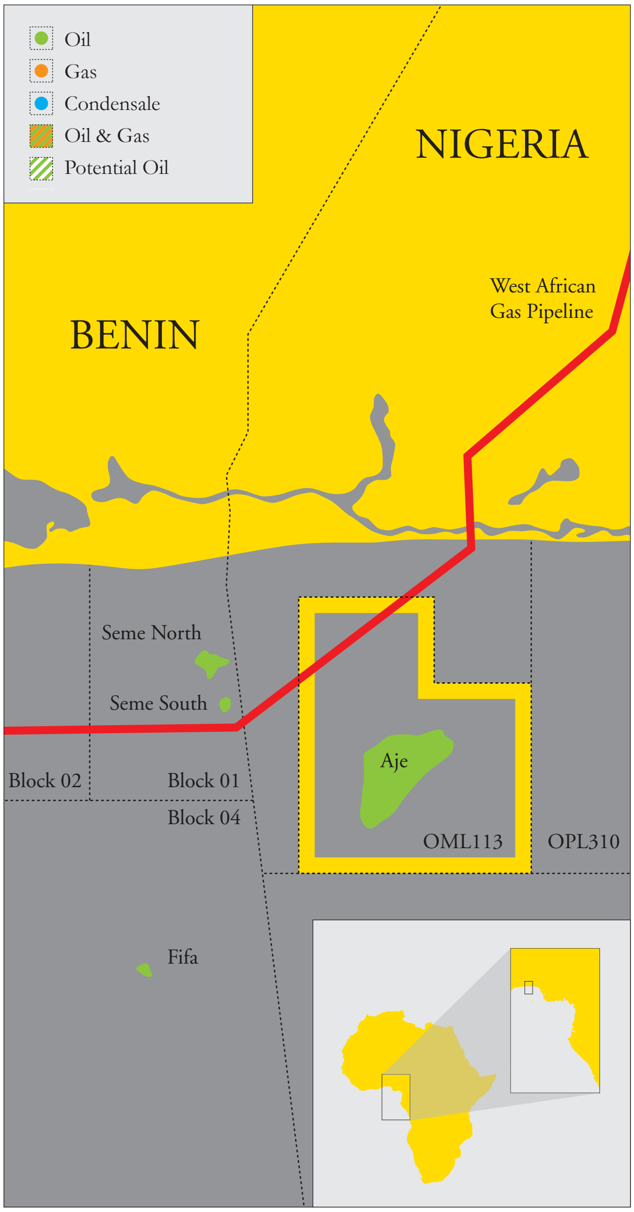
In August 2010, Chevron completed and communicated to the partners a new PSDM interpretation of the Aje field. Panoro Energy's preliminary interpretation of this work indicates recoverable resources of 100 – 300 MMBOE from the field, which is lower than the estimate from 31.12.2009.

Commercial agreements for transportation and sales of gas from the field have yet to be reached. Additionally, new local content regulations are now expected to increase the cost of developing the field. The Joint Venture partners are evaluating the impact of these issues on the timing of the commencement of Front End Engineering and Design («FEED») but this will now be delayed to ensure that the selected development concept is optimized for the new assessment of the resource base.

OML 90 Ajapa field (40% interest divestiture completed in November 2010)

In the fourth quarter 2010, the Company announced the completion of the sale of the Company's interest in the Ajapa marginal field in OML 90, offshore Nigeria, for a consideration of USD 30 million.

OML113 Aje



Nigeria-São Tomé JDZ block 3 (10% interest)

During 2010, Panoro Energy's JDZ (Joint Development Zone) subsidiary notified the Joint Development Authority and partners of its withdrawal from the license and the partnership, and relinquishment of its JDZ block 3 interest.

GABON

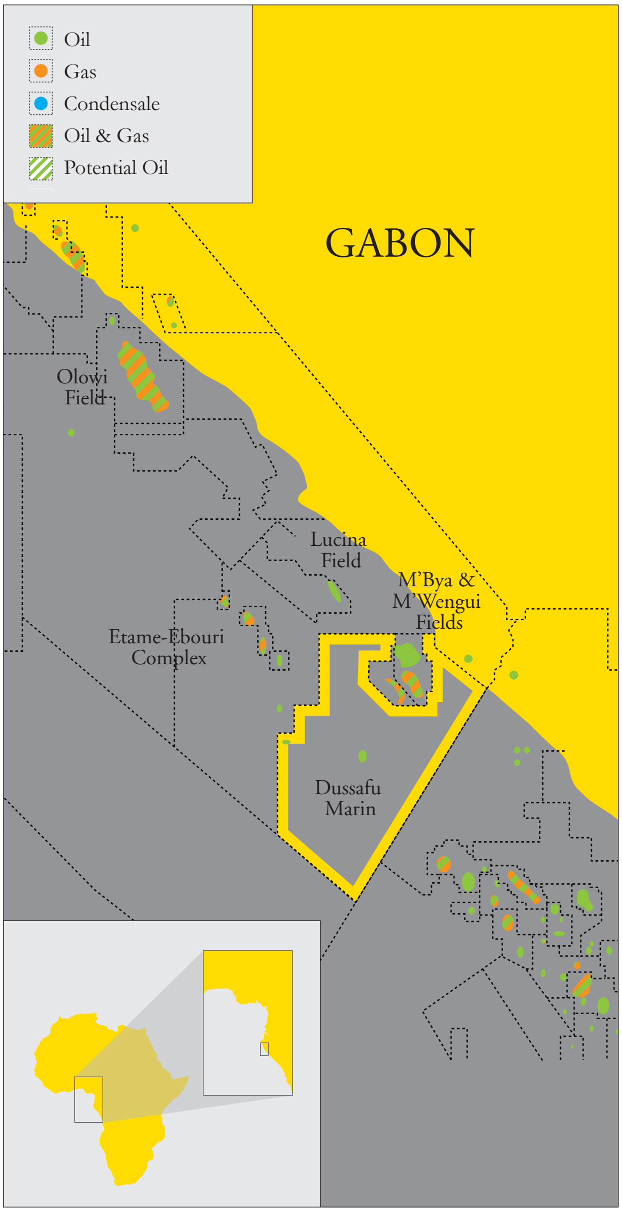
Dussafu Marin Permit (33.33% interest)

Covering an area of 2,775 sq km, most of the block lies in less than 200m of water and has been explored since the 1970s. A total of 19 wells have been drilled on the block to date, of which four have been discoveries (3 oil and 1 gas) and oil shows are present also in most other wells. To the north west of the block is the Etame-Ebouri Trend, a collection of fields producing from the pre-salt Gamba sandstone, and to the north are the Lucina and M'Bya fields which produce from the syn-rift Dentale and Lucina sandstones beneath the Gamba.

The main reservoir target in Dussafu is the Gamba sandstone, which is productive in many fields in the area. It consists of a regionally extensive blanket of fine to medium-grained sand, generally with excellent reservoir qualities. Additional potential exists in the older, syn-rift formations, and in the post-salt Madiela formation, which is a prolific reservoir in Congo and Cabinda, and productive at the nearby Yombo field in Congo. Two existing discoveries on the Dussafu permit are currently being reviewed - the Moubenga-1 well (Elf, 1981) tested up to 2,730 bopd from the Dentale, and Walt Whitman-1 (Amoco, 1995) which encountered a 17m oil column in the Gamba sandstones.

Within the current exploration phase, the parties have acquired additional 2D seismic and reprocessed the existing 3D seismic, have conducted geological, geophysical and engineering studies, and have recently agreed the location of an exploration well. Preparations are underway for drilling of the Ruche-Marine-1 exploration well in the second quarter 2011. The well is designed to test the Gamba and Dentale sandstones with a target depth of 3,020 meters.

Dussafu



RESERVES AND CONTINGENT RESOURCES

Panoro Energy was formed through the merger of Norse Energy's former Brazilian business and Pan-Petroleum on June 29, 2010. In this report, when reference is made to status as of 31.12.2009, the Norse Energy do Brasil and Pan-Petroleum values apply. At year-end 2009, Norse had three, Pan-Petroleum one asset categorized as reserves (Ajapa – divested during 2010).

Panoro's classification of reserves and resources complies with the guidelines established by the Oslo Stock Exchange and are based on the definitions set by the Petroleum Resources Management System (PRMS-2007), sponsored by the Society of Petroleum Engineers/World Petroleum Council/ American Association of Petroleum Geologists/ Society of Petroleum Evaluation Engineers (SPE/WPC/AAPG/SPEE) as issued in March 2007.

Reserves are the volume of hydrocarbons that is expected produced from known accumulations:
- in production
- under development
- with development committed

Reserves are also classified according to the associated risks and probability that the reserves will be actually produced.

1P – Proven reserves represent volumes that will be recovered with 90% probability
2P – Proven + Probable represent volumes that will be recovered with 50% probability
3P – Proven + Probable+ Possible volumes that will be recovered with 10% probability

Contingent Resources are the volume of hydrocarbons that is expected produced from known accumulations:
- in planning phase
- where development is likely
- where development is unlikely with present basic assumptions
- under evaluation

In this report only best (2C) or 50% probability estimates are quoted.

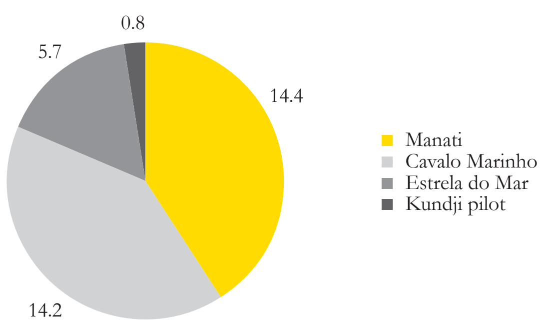
Panoro Energy's reserve report per end 2010 is summarized in the table below:

Asset	1P reserves MMBOE	2P reserves MMBOE	3P reserves MMBOE
Manati	12.1	14.4	16.5
Cavalo Marinho	5.7	14.2	20.3
Estrela do Mar	0.0	5.7	6.8
Kundji pilot	0.6	0.8	1.1
Total	**18.4**	**35.1**	**44.7**

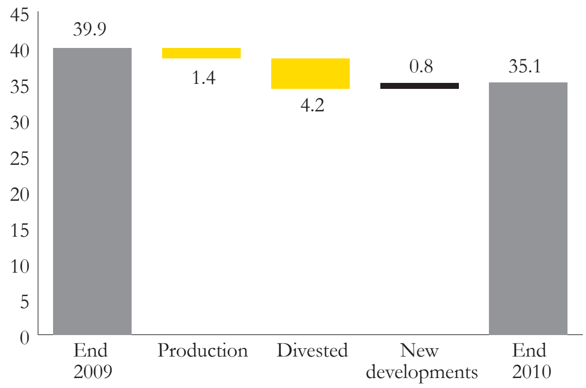
By year-end 2010, Panoro is producing reserves from two assets, one in Brazil and one in Congo. Further assets classified as reserves are assets with development plans committed. Panoro has four fields classified with reserves and seven with contingent resources. A summary description of each asset with status as of year-end 2010 is included below. In addition, we refer to the Company web-site www.panoroenergy.com for background information on each asset Unless otherwise specified, all numbers quoted below are net to Panoro's interest.

2P Reserves Development	(MMBOE)
Balance (previous ASR) as of December 31, 2009	39.9
Production 2010	-1.4
Acquisitions/disposals since previous ASR	-4.2
Extensions and discoveries since previous ASR	0.0
New developments since previous ASR	0.8
Revisions of previous estimates	0,0
Balance (current ASR) as of December 31, 2010	**35.1**

2010 2P RESERVES (MMBOE)



2010 2P RESERVE DEVELOPMENT (MMBOE)



MANATI: GAS FIELD OFFSHORE BRASIL, OPERATOR PETROBRAS, PANORO 10%

Manati is Panoro's main field under production. The original development plan called for seven producing wells, but based on initial production experience and reservoir understanding, the operator concluded that six wells could potentially suffice to drain the reservoirs. The consortium consequently has decided to postpone the decision to drill the seventh well.

Compared to last year, Gaffney Cline & Associates («GCA») has certified 1P reserves of 12.1 MMBOE, up from 11.5 last year, while 2P reserves decreased from 15.8 to 14.4 MMBOE, reflecting 1.445 MMBOE produced volumes during 2010 (gas + condensate).

Certified 3P volumes of 16.5 MMBOE and assumes a 7th well draining the northern extension of the field.

The certified 1P volume has increased as an extension to the gas sales contract has now been agreed securing off take of all Manati gas. Consequently, GCA has removed the restriction previously applied to 1P reserves. This restriction reflected the original contract which quoted a maximum sales volume that the present understanding of the field demonstrate will be exceeded.

5.2 MMBOE of the 12.1 MMBOE 1P reserves will require installation of compression equipment and as such is sub-classified as proven, not developed. Compression is currently assumed operational from 2014.

MKB: ONSHORE CONGO, OPERATOR SNPC (CONGO NATIONAL OIL COMPANY), PANORO 20%

MKB is the term used to name a 700km^2 license area onshore Congo holding three defined accumulations: Mengo, Kundji and Bindi. The accumulations were discovered and produced over a 10 year period by Elf Aquitaine back in the 1980's, but were abandoned in 1993. According to the operator the MKB fields may hold above 2.3 billion bbls (100%) oil in place. Panoro Energy's own estimates are 1-1.5 billion barrels, but MKB in any case represents a potentially significant asset for the Company.
Initial redevelopment efforts have been focused on Kundji where test production from two new Kundji wells drilled in 2009 has been conducted since August 2010. Results confirm commerciality of a re-development using modern drilling and completion techniques.

Plans for a continued, step-wise development program have been firmed up starting with a Kundji pilot project with six additional wells to be drilled and completed in the same area as the two 2009 wells.

Gaffney Cline & Associates has been engaged to review the plans for Kundji and has in this connection confirmed Panoro Energy's best estimate of the Kundji STOOIP of 233 MMBBL (100%).

GCA was not able to include test production data from the two 2009 wells for the end 2010 review, but has based their work on data from the initial Elf wells, particularly the KUN-1 well, which was drilled in the Kundji pilot project area and saw production decline over an extended period (10 years).

For the end 2010 review, GCA has certified reserves associated with the 8 well program in the Kundji pilot project area to be 1P reserves of 0.56 MMBBL, 2P reserves of 0.8 MMBBL and 3P reserves of 1.12 MMBBL net to Panoro. Note that associated gas is assumed flared at this stage and is not included in the current reserve estimates.

For the 2P reserves case this reflects an average of 0.5 MMBBL total recovery per well (100%) based on the Elf data. With the promising test results seen so far, we expect this number to be improved as effects of the well stimulation techniques employed are confirmed and allowed reflected in future reserve estimates. Best estimate Contingent Resources for the entire MKB license is 64 MMBBL to Panoro's share according to a 2009 study by TRACS. This number reflects a case where all three fields are developed and assumes water injection and as such represents an upside target at this stage. Future work will result in updates going forward as new information is made available and activities are expanded beyond the Kundji field.

BS-3: OFFSHORE BRAZIL, OPERATOR PETROBRAS, PANORO 35-65%

The BS-3 area offshore in the southern part of the Santos Basin, holds two Panoro assets classified with reserves: the Cavalo Marinho and Estrela do Mar oil fields, where new development plans were filed with the Brazilian Petroleum Agency («ANP»), in January 2011.

Generally, in all the BS3 fields, hydrocarbons are discovered in up to four separate, vertically stacked carbonate reservoir zones, where commercial production so far has been associated with the lower three. The top zone (referred to B1), holds significant hydrocarbon volumes in place but has low permeability and has not been commercial with traditional technology. The filed development plans include provisions for a B1 pilot project by drilling a dedicated horizontal well to test this zone in Estrela do Mar. Previous long term tests have indicated this area to contain the best B1 production properties seen so far in the area. Development of all fields in this area depends on a common gas export solution to shore. This is being planned by Petrobras to be a gas pipeline originating in the Tiro/Sidon fields (100% Petrobras) to the east of the BS3 fields, allowing tie-in of gas from all participating fields. In addition to the Panoro assets these include the 100% Petrobras BS3 fields Caravela and Tubarao where development plans were also filed in January 2011.

Cavalo Marinho field (CvM), Panoro 50%

In the January 2011 Cavalo Marinho development plan, an FPSO is shared with nearby Caravela field (100% Petrobras), providing necessary utilities, processing facilities and gas export.

Based on the operator's work, Gaffney Cline & Associates has certified volumes as follows: – 1P reserves 5.7 MMBOE and 2P reserves of 14.2 MMBOE. P1 reserves are restricted since one of the Hydrocarbon bearing sub-zones (B2) was not flow tested in the CVM discovery well (due to well mechanical problems).
Panoro's internal work on CvM was done with the Norwegian petroleum engineering consultancy AGR. This work shows higher oil in place and involves a proposed development scenario with more production wells and higher resources. An additional 5.3 MMBOE compared with the operator's estimate is carried as – 2C – best estimate Contingent Resources.

At this stage, resources in the low permeability B1 zone of CvM are regarded as prospective. Reclassification is pending results of the B1 Estrela do Mar pilot.

Estrela do Mar field (EdM), Panoro 65%

The filed development plan for EdM reflects a stand-alone development solution including a separate, horizontal well to test the low permeability B1 zone.

Based on previous work done by the operator, Gaffney Cline & Associates has certified EdM 2P reserves of 5.7 MMBOE, but no 1P volumes. This excludes gas volumes (assumed flared at the time of the certification review) and no B1 contribution.
For the proven reservoirs on Estrela do Mar, Panoro's internal work with AGR indicates an upside compared to the operator's work. A best estimate – 2C – of 7.8 MMBOE (including gas) in addition to the operator's 2P reserves estimate is carried as contingent resources.

For the low permeability B1 zone, Panoro's internal reservoir simulation work with AGR indicates a best – 2C – estimate of 33.9 MMBOE for a case where the decided test well is successful and the reservoir is depleted by drilling additional 6 horizontal wells and as such represents an upside target at this stage.

Although a development plan was filed in January 2011, the partners recognize that further work is necessary before also the EdM development concept is finally settled. This may include more reservoir engineering studies, technical optimization studies (to possibly tie back EdM to other developments in the area), as well as commercial arrangements around shared facilities.

Caravela-Sul field (CvS), Panoro 50%

This small field is located within the Cavalo Marinho ring fence just north of CvM, approximately underneath the location of the proposed FPSO for the Cavalo Marinho-Caravela Integrated project.

Future development may be considered and the operator has performed work indicating a possible upside potential, but an eventual development decision has been postponed.

CvS volumes are presently included as contingent resources only related to the lower B4 zone, with a best estimate – 2C – of 0.4 MMBOE.

Coral field (CRL), Panoro 35%

The Coral field was developed with three sub-sea producing wells and produced in the period 2003 – late 2008, flaring the associated gas. A pilot water injection scheme was tested successfully during the last 6 months before abandonment.

Both the operator and Panoro have conducted studies to identify the potential of further Coral recoveries and a future return to the field is expected. The partners have decided to retain the license. Coral volumes are included as contingent resources, with a best estimate – 2C – of 4.2 MMBOE.

AJE: OFFSHORE NIGERIA, OPERATOR YINKA FOLAWIYO PETROLEUM (YFP), PANORO 12.1913%

The Aje discovery, close to the border with Benin, is predominantly a gas discovery with significant condensate but also contains a separate oil leg.

Various development concepts have been evaluated, but progress towards a development decision has been slow, mainly because of delays in securing a commercially viable gas sales contract through the West Africa Gas Pipeline. A small scale oil only development is also being studied, and the results of this are expected to be concluded in 2011.

Aje volumes, as reported by Chevron (technical assistant to the operator) are included as contingent resources, with a best estimate – 2C – of 20.7 MMBOE to Panoro's share.

CAMARÃO NORTE: OFFSHORE BRAZIL, OPERATOR PETROBRAS, PANORO 10%

Camarão Norte is a discovery in the old BCAM 40 (Manati) block which straddles the border to the neighboring block to the south (BM-CAL-4, 100 % owned and operated by a third party). Camarão Norte was declared commercial in July 2009. Five wells have been drilled on the structure (four in block BM-CAL-4), proving the presence of both oil and gas.

A unitization process is underway and volumes are included as contingent resources, best estimate – 2C – of 0.9 MMBOE. This includes both oil and gas volumes considered inside the BCAM 40 ring fence in a 50-50 unitized development scenario.

DUSSAFU: OFFSHORE GABON, OPERATOR HARVEST NATURAL RESOURCES, PANORO 33%

The Dussafu license offshore Gabon has so far seen two small sub commercial discoveries – named Moubenga and Walt Whitman - with a combined, best case – 2C – estimate of 1.9 MMBBL to Panoro's interest.

A new exploration well is planned for the 1st half of 2011 in the same general area as these two discoveries.

MANAGEMENT DISCUSSION AND ANALYSIS

Panoro uses the services of Gaffney, Cline & Associates (GCA) for 3rd party verifications of its reserves. For the reported reserves in Brazil, GCA has based their assessments on work done by the operator (Petrobras). For the MKB project in Congo, in-house work done by Panoro staff and consultants form the basis for the reported reserves certified by GCA.

All evaluations are based on standard industry practice and methodology as production decline analysis, reservoir modeling and geological and geophysical analysis.

Panoro's policy is to update the Annual Statement of Reserves (ASR) whenever there are significant changes occurring or new information becomes available that materially influences the reported results.

Compared to previously reported numbers the consequences for the year-end 2010 ASR are summarized per asset as follows:

- **Manati;** previous reserves numbers have been updated and recertified by GCA early 2011 to reflect 2010 production and an amended gas sales contract ensuring off take of all Manati gas at a known price.
- **MKB;** early 2011, GCA has certified reserves associated to a defined Kundji pilot program (8 wells) covering part of the Kundji area.
- **BS-3;** for the 2010 ASR report, Panoro has chosen to carry forward last year's certified volumes since the development plans filed in January 2011 are based on the operator's previously reported volumes, certified by GCA in 2009.
  - The development concepts described reflect stand alone developments for both Estrela do Mar and Cavalo Marinho/ Caravela with gas off take shared with the nearby Tiro and Sidon fields. Further optimization of technical solutions and area integration will continue in 2011 in parallel to commercial negotiations firming up development schedules and cost sharing principles.
  - A new 3rd party certification will be performed and reported when this work is completed. This is expected for 2nd half of 2011, when also revisions of the respective development plans will be filed as necessary.

During 2010, Panoro has disposed of its Ajapa asset (2P of 4.2 MMBOE) in Nigeria and have decided to relinquish its Sardinha asset offshore Brazil as this partnership has failed to materialize commercial plans for this asset.

Panoro's total 1P-reserves at end of 2010 amount to 18.4 MMBOE. This reflects sale of the Ajapa asset in Nigeria, inclusion of the Kundji pilot, effects of the amended Manati gas sales contract and adjusting for 2010 production.

Panoro's 2P-reserves after similar adjustments and 2010 production is 35.1 MMBOE.

Panoro's Contingent Resource base includes

- Discoveries of varying degree of maturity towards development decisions
- Upside potential identified through Panoro's own work on existing licenses, specifically on the BS-3 fields where our interpretations, compared to the operator, have identified additional volume

By end of 2010, Panoro's assets represent a total 2C volume of 139.1 MMBOE. This also reflects that the Sardinha license has been relinquished in 2010.

Kjetil Solbrække
CEO


O BØRS
SLO BØRS

DIRECTORS' REPORT 2010

Panoro Energy ASA («Panoro Energy» or the «Company») is an independent E&P company with a balanced portfolio of assets in the South Atlantic region. The Company was formed through the merger of Norse Energy's former Brazilian business and Pan-Petroleum (Holding) Cyprus Ltd on June 29, 2010.

Panoro Energy was listed on the Oslo Stock Exchange (OSE) on June 8, 2010 under the ticker symbol «PEN». The Company's business activities are exploration and production of oil and natural gas, with the main areas of operation in Brazil, Congo-Brazzaville, Nigeria and Gabon. The corporate headquarters are located in Oslo, Norway, with offices in London, United Kingdom and Rio de Janeiro, Brazil. Additionally, the Company has personnel seconded into the MKB project organization in Congo-Brazzaville. 2010 was the first year as a merged entity, with the main focus on aligning the two organizations, asset portfolios and key stakeholders. The Company successfully gained financial strength through the completion of asset transactions and debt refinancing in 2010, and the subsequent issuance of new equity early in 2011.

OPERATIONS

Brazil

The Company's seven licenses in Brazil are located in the Santos Basin (six licenses) and Camamu-Almada Basin (one license).

Panoro Energy's production comes from the Manati field in Brazil in the BCAM-40 block in the Camamu-Almada Basin, where the Company holds a 10% interest. The field commenced production in 2007 and in 2010 daily natural gas production averaged a record 6.19 MMm3 per day (~3,900 BOE/day net to Panoro), representing an increase of approximately 20% from 2009. The increase was mainly attributed to strong demand for natural gas in the northeastern Brazil, particularly in the second half of 2010.

The Company also has a 10% interest in the Camarão Norte discovery in the BCAM-40 block, south of the Manati field. This field was discovered in 2001, and is located 9 km south of the Manati field with extensions to the Camarão field to the south into the BM-CAL-4 block, which is 100% owned by El Paso. During 2010, the operator initiated a unitization process between the two fields, as required by the Brazilian Petroleum Authorities.

After assessing the economic and technical feasibility of the Sardinha field (20% interest), along with the environmental challenges due to the location of the field, the Company decided in 2010 to withdraw from the license.

In the Santos Basin, the Company has ownership in three discoveries, Cavalo Marinho (50% interest), Estrela do Mar (65% interest) and Coral (35% interest) in the BS-3 area, as well as the three shallow water exploration blocks SM-1035, SM-1036, and SM-1100.

Panoro Energy and its partners have continued to work to optimize the development of the fields in the BS-3 area. The operator, Petrobras, filed new development plans for Cavalo Marinho and Estrela do Mar with the Brazilian National Petroleum Agency («ANP») in January 2011, which marked an important milestone towards making a final investment decision and ultimately achieving production from these fields.

In January 2011, the Company reached an agreement to farm out 35 percentage-points of its 50% interest in the exploration licenses SM-1035, SM-1036 and SM-1100 in exchange for USD 15 million, and a financing of its remaining 15% for three exploration wells, one on each license.

Congo-Brazzaville

In Mengo-Kundji-Bindi («MKB»), where Panoro holds a 20% working interest, the Company and its partners commenced a pilot program in 2010. Testing of two wells confirmed that the Mengo sandstones in the Kundji area have sufficient permeability and reservoir frackability to achieve economic oil flow rates, and oil flowed to surface without any formation water. The two wells established a combined production capacity of approximately 900 BOE/day. The Company expects to drill six additional wells in 2011 as part of the pilot program. Subsequent to an evaluation of this pilot program, a full field development plan for the area is to be agreed with the partners.

Nigeria

The Company completed the sale of its 40% interest in the Ajapa marginal field in OML 90 offshore Nigeria for a consideration of USD 30 million in November 2010.

During 2010, Chevron, as technical advisor of the OML 113 Aje field, where Panoro holds a 6.502% participating interest (12.19% revenue interest), completed a new pre-stack depth migration («PDSM») study for the field, which caused a resource downgrade and highlighted the uncertainty with regard to determining recoverable resources from this field. The partners continue to evaluate revised development concepts, including options for commercializing the gas.

The Company notified the Joint Development Authority and its partners in the Nigeria-São Tomé Joint Development Zone of its withdrawal and relinquishment of the Company's 10% interest in JDZ block 3 in 2010.

Gabon

Drilling of the Ruche-Marine-1 prospect in the Dussafu license (33.33% interest) is scheduled to commence in the second quarter of 2011. The drilling plan is designed to test the Gamba and Dentale sandstones, including provisions for contingent testing and a further sidetrack to appraise any discovered hydrocarbons.

THE ACCOUNTS

The Board of Directors confirms that the annual financial statements have been prepared pursuant to the going concern assumption, in accordance with §3-3 of the Norwegian Accounting Act, and that this assumption was realistic at the time the accounts were approved. The going concern assumption is based upon the financial position of the Company and the development plans currently in place.

The financial statements reflect the activities in 2010, and the Company's financial position is considered to be sound. The consolidated accounts are presented in US dollars. The 2009 comparatives represent historical balances of Norse Energy do Brasil which have been construed as comparatives of the Group financial statements of Panoro Energy under the International Financial Reporting Standards.

Panoro Energy ASA was formed to effect a business combination between two existing entities, Norse Energy do Brasil («NEdB»), a former subsidiary of Norse Energy Corporation («NEC»), and Pan-Petroleum Holdings (Cyprus) Limited («PPHCL»). The acquisition by the Company of PPHCL and NEdB were both settled by the issuance of ordinary shares in Panoro Energy ASA in exchange for shares in PPHCL and NEdB. The transaction was effected in a two stage process.

On June 7, 2010, the demerger from NEC was completed, whereby voting shares in a portfolio of the Brazilian assets (NEdB) were split from the NEC group and acquired by the Company. Ordinary shareholders in NEC at the time of demerger were issued one share in the Company for every ten ordinary shares held in NEC.

For the purpose of the annexed financial statements the transfer of NEdB from NEC to the Company has been accounted for under the pooling of interests method which involves presenting companies as if they had always been combined with no fair value adjustments.

The pooling of interests method requires presentation of NEdB and Panoro as a combined business since inception and therefore the comparative information represents the NEdB historical financial statements pooled with Panoro. Having been incorporated in 2009, Panoro had no operations up to December 31, 2009 and as such no results of the Company are reflected in the comparative information.

The second step was the acquisition of PPHCL by Panoro, in which Panoro has been considered the acquirer. The assets and liabilities of Pan-Petroleum have been included with fair value adjustments at the date of acquisition.

FINANCIAL PERFORMANCE AND ACTIVITIES

During 2010, the Company's asset base and capital structure were significantly strengthened through the issue of new equity in connection with the merger and restructuring of external debts at improved terms and conditions. The Company held a cash position of USD 61.7 million at year end, which was further enhanced in 2011 by subsequent equity issues with gross cash proceeds of approximately USD 95 million.

CONDENSED CONSOLIDATED INCOME STATEMENT

(Amounts in USD 000)	2010	2009
Total revenues	44,354	34,650
Operating expenses		
Production costs	(5,160)	(4,002)
Exploration related costs	(4,811)	(14,162)
Depreciation	(8,703)	(6,423)
Impairment	(1,686)	(13,679)
General and administrative costs	(13,358)	(7,293)
Merger and restructuring costs	(6,217)	-
Total operating expenses	**(39,935)**	**(45,559)**
Operating profit / (loss)	**4,419**	**(10,909)**
Gain on acquisition of subsidiary	2,329	-
Net financial items	(2,314)	33,075
Net interest costs	(24,845)	(13,347)
(Loss) / profit before taxes	**(20,411)**	**8,819**
Income tax benefit / (expense)	5,254	(4,719)
Net (loss) / profit	**(15,157)**	**4,100**

In 2010, total revenue was USD 44.4 million, up 28% from USD 34.7 million in the previous year, and is generated by Brazilian operations. The increase was mainly driven by a 19% increase in sales volumes from the Manati field from 3,142 BOE/day in 2009 to 3,728 BOE/day in 2010.

Production costs increased by 29%, from USD 4 million in 2009 to USD 5.2 million in 2010.

Exploration related costs totaled USD 4.8 million for the year, which was significantly lower than the USD 14.2 million in the previous year. Depreciation increased to USD 8.7 million from USD 6.4 million in 2009, mainly related to higher production in Brazil together with exchange fluctuations and a minor impact of reserve estimate revisions compared to 2009. An impairment charge of USD 1.7 million was booked in 2010, compared to USD 13.7 million in 2009. The impairment for 2010 relates to relinquishment of the Sardinha license area, whereas the 2009 impairment mainly related to the relinquishment of the BCAM-40 exploration license.

As activity and number of employees were higher in 2010 than the previous year, general and administrative costs increased from USD 7.3 million in 2009 to USD 13.4 million in 2010. The higher costs for 2010 can be attributed to the following facts:

- 2009 comparatives only represent costs of Brazilian operations which do not include any remuneration to directors nor majority of key management; and
- Post merger costs of Pan-Petroleum Group have been included from second half of 2010 which is not present in the comparative information.

Merger and restructuring costs during 2010 of USD 6.2 million (2009: Nil) represent one-off costs for demerger and merger, mainly reflecting payments to consultants and advisors.

Operating profit for 2010 was USD 4.4 million, compared to an operating loss of USD 10.9 million in 2009. The loss in 2009 was primarily driven by higher charges for impairment and exploration related costs.

The gain on acquisition of subsidiary represents the excess of fair value of the Pan-Petroleum net assets over the fair value of the consideration shares issued at the time of the merger. This was recognised as income in accordance with IFRS 3.

Net financial items were negative USD 2.3 million in 2010, compared with a positive USD 33.1 million in 2009. The change was mainly attributable to a net foreign exchange gain of USD 33.1 million in 2009, compared with a loss of USD 1.2 million in 2010. The gain in 2009 was due to significant strengthening of BRL against USD. The current year also included USD 1.2 million loss due to movement in fair value of warrants liability.

Net interest costs amounted to USD 24.8 million in 2010 compared to costs of USD 13.3 million in 2009. The increase is attributable to the expensing of the debt issue costs of the old bond, debt restructuring costs, and early repayment premium on the Company's NEC-01 bond which was redeemed during 2010. Income tax benefit for 2010 was USD 5.3 million compared to an expense of USD 4.7 million in 2009. The income tax benefit mainly reflects the recognition of deferred tax assets on Brazilian tax losses and accelerated book depreciation.

Net loss for 2010 was thus USD 15.2 million, compared to a net profit of USD 4.1 million in 2009. Including exchange differences arising from translation of foreign operations and other comprehensive income, total comprehensive income amounted to a negative USD 8.4 million for 2010, compared to USD 20.6 million for 2009.

A negative USD 4.4 million was attributable to shareholders of the parent company and a negative USD 2.4 million to non-controlling interests in 2010, whereas USD 26.2 million was attributable to the shareholders of the parent company and USD 1.4 million to non-controlling interests in 2009.

The Group's total assets increased by USD 129.1 million to USD 419.7 million in 2010, which mainly reflects an increase in exploration assets through the acquisition of Pan-Petroleum and cash proceeds from the issue of equity shares.

Brazilian business accounted for USD 299.0 million of total assets (290.6 million in 2009) and West Africa for USD 68.3 million (2009: Nil), with the remainder in corporate entities.

Total current assets increased by approximately USD 56.5 million to USD 84.5 million, through significant increases in cash and bank balances (USD 48.6 million), and increase in receivables of USD 7.9 million.

Non-current liabilities increased by USD 144.9 million from nil balance in 2009, mainly attributable to the reclassification of certain bond loans to current liabilities as their maturity dates were in 2010. The non-current liabilities in 2010 represent the long-term portion of the senior secured callable bond issued by the Company in November 2010. Non-current liabilities declined by USD 140.1 million to USD 31.6 million, primarily due to the reason mentioned above.

Equity increased by USD 124.9 million to USD 222.3 million in 2010, and the book equity ratio increased to 53% from 34% at the end of 2009. The equity increase is primarily due to the issue of equity shares for cash of approximately USD 54.8 million (net of costs), with the remainder reflecting issue of consideration shares relating to the demerger from Norse Energy Corporation and merger with Pan-Petroleum.

Net cash flows from operating activities were inflows of USD 4.7 million for 2010 compared to USD 23.8 million for 2009. This decline was primarily driven by higher loss despite increase in revenues of USD 9.3 million. This effect was driven by cost increases in the year due to merger and restructuring costs during 2010, and higher general and administration costs. Working capital movements in 2010 have resulted in a USD 16.3 million increase in cash outflows compared to 2009.

Net cash flows from investing activities were inflows of USD 26.5 million for 2010 compared to outflows of USD 7.9 million for 2009. The increase in the current year is due to USD 30 million proceeds from the sale of the OML 90 Ajapa marginal field, USD 1.4 million proceeds from the sale of a Brazilian property and USD 4.3 million cash acquired as part of the merger with Pan-Petroleum in 2010. This was offset by a decrease in cash expenditure on plant, equipment, production and exploration assets of USD 6.5 million for 2010 compared to 2009.

Net cash flows from financing activities for 2010 were inflows of USD 18.7 million compared to outflows of USD 5.7 million for 2009. The increase in 2010 is due to refinancing of loans through issue of callable bond of USD 140 million and issue of equity shares for cash for USD 54.8 million. Net finance costs were higher in 2010 compared to 2009 which resulted in higher financial cost outflows by USD 22.1 million.

Parent company financial information

During 2010, the parent company's asset base and capital structure was significantly strengthened after the introduction of investments through the merger of NEC's Brazilian assets and Pan-Petroleum Holdings (Cyprus) Limited's West African portfolio. The position was further strengthened through issue of new equity in connection with the merger of USD 54.8 million (net of costs) and restructuring of external debts at improved terms and conditions. The parent company held a cash position of USD 21.7 million at year end, which was further enhanced this year by subsequent equity issues with cash proceeds of USD 95 million.

INCOME STATEMENT

(Amounts in USD 000)	2010	2009
Total revenues	22	-
Operating expenses		
Depreciation	(86)	-
General and administrative costs	(4,166)	-
Merger and restructuring costs	(6,256)	-
Total operating expenses	**(10,508)**	**-**
Operating loss	**(10,486)**	**-**
Net interest and financial items	(7,230)	-
Loss before taxes	**(17,716)**	
Income taxes	-	-
Net loss	**(17,716)**	**-**

2010 was the first year in which the Company had operating activities and during this period the Company had an operating loss of USD 10.5 million which comprised USD 4.2 million of general and administrative costs, USD 6.3 million of merger and restructuring costs and USD 86 thousand of depreciation. This was offset by a nominal revenue of USD 22 thousand. In comparison there were no operations and results for 2009 in the Company.

Net interest and financial items for the period amounted to USD 7.2 million comprising USD 6.3 million of financial income offset by USD 9.1 million of financial expense, USD 3.2 million of foreign exchange loss and USD 1.2 million of movement in fair value of warrants liability.

Assets of the Company at December 31, 2010 were USD 438.5 million represented mainly by investments and loans to subsidiaries of USD 413.5 million, cash balances of USD 21.7 million and remaining assets of USD 3.3 million.

Total liabilities of USD 140.5 million primarily represented USD 138 million for bond loan, USD 1.2 million in relation to warrants liability and USD 1.3 million of accounts and other payables.

Equity balance at December 31, 2010 stood at USD 298.1 million represented by USD 315.2 million of share capital, share premium and additional paid-in capital compared to USD 173 thousand in 2009. Other equity in 2010 of negative USD 17.2 million represents losses for the year.

Cash outflow from operations in 2010 amounted to USD 7.7 million which are driven by losses for the period. Investing activities also resulted in net cash outflow of USD 108 million primarily due to investments in subsidiaries. Financing activities for 2010 resulted in net inflow of USD 136 million which was driven by net inflow from issue of a senior secured callable bond of USD 134.3 million, inflow of USD 54.8 million (net of costs) from issue of shares offset by USD 53.1 million outflow in repayment of debt and related net interest costs.

DISTRIBUTABLE EQUITY AND COVERAGE OF LOSS IN PANORO ENERGY ASA

The Board of Directors proposes that the loss for the year of USD 17.7 million in the parent company be transferred to other equity.

There is no distributable equity in Panoro Energy ASA as per December 31, 2010.

FUNDING

The Company improved its financial position significantly during 2010 and into 2011 through the completion of asset transactions, debt refinancing and the issuance of new equity.

In connection with the listing on the Oslo Stock Exchange in the spring of 2010, the Company completed a USD 65 million private placement directed towards Sector Asset Management, Norse Energy Corp. ASA and institutional and retail investors. Simultaneously, the Company finalized the bond restructuring in connection with the demerger from Norse Energy Corp. ASA and obtained a significantly improved repayment schedule.

During the third quarter, the Company initiated another refinancing initiative, with the aim of replacing the existing Brazilian bank debt of approximately BRL 142 million and the NEC-01 bond debt from the demerger of NOK 244 million, totaling approximately USD 125 million. The Company successfully completed a USD equivalent 140 million bond issue, replaced the existing debt and added a gross USD 15 million for general corporate purposes. The new bond has, inter alia, security ring-fenced to the Company's 10% interest in Manati, Brazil's second largest non-associated gas field in production. The bond has an eight-year tenor with a bullet of USD 55 million, providing the Company with a repayment schedule aligned with its long term cash flow from the Manati field.

With the completion of the bond issue, Panoro Energy successfully refinanced all outstanding interest bearing debt. The transaction provided approximately USD 80 million in improved financial flexibility over the next two years, through lower debt payments, less interest costs, release of the cash sweep in Brazil, and as excess funds from the bond issuance.

In the fourth quarter 2010, the Company finalized the sale of the Nigerian oil field Ajapa for a consideration of USD 30 million further strengthening the balance sheet.

A major milestone for the Company was achieved in January 2011, when the Company successfully agreed to a farm-down agreement with Vanco for its three exploration licenses in the Santos Basin in Brazil. Vanco will carry the Company's cost of drilling of three exploration wells and provide the required financial guarantee for the drilling of the three wells to the Brazilian oil directorate «ANP». Additionally, the Company will be reimbursed USD 15 million for past costs on the licenses. Panoro Energy will thus participate in the drilling of three exploration licenses without any funding requirements.

In February 2011, the Company successfully raised NOK 550 million in new equity in a private placement directed at Norwegian and international institutional investors. The share issue was oversubscribed and the price was set at NOK 7.80 per share. With the significant share issue in place, a healthy capital structure and a flexible capital investment program, the Company is well placed to be able to convert resources into reserves at a more aggressive pace.

RISK FACTORS

The development of oil and gas fields is associated with technical and operational risk, alignment in the consortiums with regards to development plans, and on obtaining the necessary licenses and approvals from the authorities. Such operations might occasionally lead to cost overruns and production disruptions, as well as delays compared to the plans laid out by the operator of these fields. Furthermore, the Company has limited influence on risk related to exploration success and market cost increases.

Risks related to energy commodity price fluctuations, currency movements, production interruptions and debt service are the main financial risks to the Company.

The Company's ability to successfully bid on and acquire additional property rights, to discover reserves, to participate in drilling opportunities, and to identify and enter into commercial arrangements with customers will be dependent upon developing and maintaining close working relationships with current and future industry partners, joint venture operators and authorities, as well as its ability to select and evaluate suitable properties and to complete transactions in a highly competitive environment.

Financing and liquidity risks

Financial risk management is managed by the financial department in close cooperation with the operating units, under policies approved by the Board of Directors. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on financial performance – more specifically the risk associated with USD and NOK denominated bond loans, currency exposures to servicing of debt, and the price for oil and gas. Derivative financial instruments and currency swaps are being evaluated on a continuous basis for the hedging of such risk exposures.

The Company may be unable to raise sufficient funds through public or private financing, strategic relationships and/or other arrangements to meet its future capital and operating expenditure needs. Similarly, the Company may be unable to obtain such funding in order for it to implement its growth strategy or take advantage of opportunities for acquisitions, joint ventures or other business opportunities. Negative market development or any unforeseen liabilities, may lead to a strained liquidity position and the potential need for additional funding through equity financing, debt financing or other means.

The Company operates internationally and is exposed to risk arising from various currency exposures, primarily with respect to the Norwegian Kroner (NOK), the US Dollar (USD), the Brazilian Real (BRL) and the Pound Sterling (GBP).

The Company currently has no interest rate risk exposure on long-term borrowings, as the Company has fixed rate borrowings only.

HEALTH, SAFETY AND THE ENVIRONMENT (HSE)

Panoro Energy's vision for Health, Safety and Environment (HSE) is to avoid accidents and incidents and minimize the impact of our activities on the environment.

As a non-operator, Panoro has limited direct influence on the activities in the field. Our focus is on active participation both through direct cooperation with the operator and partners and through our work in the various license committees to influence the drivers for health, safety, environmental and quality performance, such as the choice of technical solutions, vendors and quality of applied procedures and practices.

Operational guidelines

Building on the Company Corporate Governance principles, a set of operational guidelines has been established that covers critical aspects of the operation ranging from ethical issues and practical travel advice to delegation of authority matrices.

Emergency preparedness

The safety of the Company's employees is of the highest priority. With assets in South America and West Africa requiring frequent travels, the Company focuses on ensuring adequate safety levels for employees travelling to these locations. An emergency preparedness organization is in place where membership in SOS International is a key factor. SOS International is an organization providing updated risk assessments, medical support and evacuation services worldwide.

Operational safety, risk assessments and the environment

As stated above, the Company is primarily a non-operator but has chosen to take an active role in all its licenses with a conviction that high safety standards are the best guarantee for successful operations. Activities in Norway do not pollute the environment.

During 2010, Panoro Energy acted as operator on its three Round 9 exploration blocks in Brazil. The 2010 activities were restricted to sub-surface evaluations and planning activities. As a result of the farm-out, operatorship will be transferred to Vanco during 2011 upon government approval being obtained. Preparations for and execution of the coming drilling campaign will be conducted with Vanco as operator.

In Brazil, the Company's 2010 operations were to the best of our knowledge conducted by the operator at acceptable HSE standards on behalf of the licenses.

In Congo, the Company participated in completion and stimulation of two oil wells including test production on the Kundji field. Three Panoro employees were seconded into the operator's organization, participating in operational planning and execution.

To the Company's satisfaction, no accidents resulting in loss of human lives or any injury to individuals or damage to property have been noted. Furthermore, to the Company's knowledge, all the operations where the Company was involved have been conducted in accordance with the requirements of the relevant environmental regulatory authorities.

The Company maintains a management level risk register for all its assets. Relevant HSE related risks are included with mitigating actions indicated for management follow up and monitoring.

Panoro Energy is committed to work towards minimizing waste and pollution as a consequence of its activities.

A system for video-conferencing between the Oslo, London and Rio de Janeiro offices is under installation to help reduce travel requirements.

The Company emphasizes the importance of a good working environment both for the individual employee and for achieving Company goals and objectives.

The objective is to create a working environment founded on mutual trust between employees and management, and characterized by a spirit where constructive ideas and initiatives are welcome.

Work environment

Lost time due to employee illness or accident for the Group and the Company was less than one percent during 2010. It is the Company's policy to always work towards identifying and employing administrative and technical solutions that ensure a safe and efficient workplace.

CORPORATE GOVERNANCE

The main objective for Panoro Energy ASA's Corporate Governance is to develop a strong, sustainable and competitive company in the best interest of the shareholders, employees and society at large, within the laws and regulations of the respective country. The Board and management aim for a controlled and profitable development and long term creation of growth through well-founded governance principles and risk management.

Panoro Energy acknowledges that successful value-added business is profoundly dependent upon transparency and internal and external confidence and trust. Panoro Energy believes that this is achieved by building a solid reputation based on our financial performance, our values and by fulfilling our promises. Thus, good corporate governance combined with Panoro Energy's Code of Conduct is an important tool in helping the Board to ensure that we properly discharge our duty.

The Board acknowledges the Norwegian Code of Practice for Corporate Governance of October 21, 2010 and the principle of comply or explain. Panoro 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.panoroenergy.com.

DISCRIMINATION AND EQUAL EMPLOYMENT OPPORTUNITIES

Panoro Energy is an equal opportunity employer, and integrates an equality concept into its human resources policies. All employees are governed by Panoro Energy's Code of Conduct to ensure uniformity within its workforce. At Panoro 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. Panoro 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.

Panoro Energy employed 36 persons representing more than 10 different nationalities at the end of 2010, whereof 5 in Norway, 13 in UK, 15 in Brazil, and 3 in Congo (seconded into SNPC). 62% were men and 38% were women. There are currently no women in Panoro Energy's senior management. Overall workforce turnover is relatively low.

DIRECTORS AND SHAREHOLDERS

According to its Articles of Association, the Company must have a minimum of three and a maximum of eight directors on its Board. The current number of Board members is five, all non-executive directors. Two of the Board members are female. The members have varied backgrounds and experience which offer the Company valuable perspectives. The Board held 12 meetings during the year.

OUTLOOK

Panoro Energy holds an attractive portfolio with assets in two of the world's most prolific petroleum regions; Brazil and West-Africa. Recent financial and asset transactions have strengthened the financial position substantially, combined with continuous revenue contributions from existing production.

2010 has been a challenging year with two organizations merging to become one cohesive corporate entity. The combined Company has been through a very intense period working to finalize the restructuring and merger. The Board of Directors thanks the administration and employees for their efforts and commitment during these processes.

The Manati field continues to provide the Company with a solid cash flow contribution. The operator maintains the expectation that 2011 field production will average around 6.00 MMm^3/day (~3,700 BOE/day), although with seasonal variations during the year. During the conduct of maintenance of operations early 2011, the operator initiated inspection of the platform risers and concluded that replacement of certain risers is required. This has caused temporary reduction in production into 2011.

Panoro is encouraged by the filing of updated development plans to ANP for the Cavalo Marinho and Estrela do Mar fields. This marked an important milestone in moving these projects towards investment decision and ultimately production from the BS-3 fields. The forward program includes agreeing on commercial terms for the licenses, and final concept selection is expected in the third quarter of 2011.

In MKB in Congo-Brazzaville, the project organization continues to evaluate the results of the test wells and improve efficiency before commencing new drilling operations. The Company expects to drill six additional wells in 2011 as part of the pilot program. Subsequent to an evaluation of this pilot program, a full field development plan for the area is to be agreed with the partners and approved by the authorities.

Panoro is also looking forward to the drilling of the Company's first exploration well in Gabon during the second quarter of 2011.

With the private placement, bond issue, sale of Ajapa, and secured financing for three high impact wells in Brazil, the Company has strengthened its balance sheet significantly. With this capital base, Panoro can speed up processes and become more aggressive in moving its asset portfolio forward.

Oslo, April 14, 2011
The Board of Directors
Panoro Energy ASA

Phil Vingoe *Chairman of the Board*	Tord Pedersen *Director*	Christine Wheeler *Director*
Ragnar Søegaard *Director*	Katherine Støvring *Director*	Kjetil Solbrække *Chief Excecutive Officer*

BOARD OF DIRECTORS

DR. PHILIP A VINGOE
Chairman of the Board

Dr. Vingoe has over thirty-five years of oil and gas experience, commencing in the technical arena and progressing to executive leadership. His responsibilities have included the management of assets and people in the U.K., U.S.A, Norway, Australia, South Africa, U.A.E., Egypt, Qatar, Pakistan, Oman, Thailand, Laos, Indonesia, Mozambique, Congo, Gabon, Nigeria and Equatorial Guinea, as well as wide ranging global responsibilities with various companies.

During 18 years with BP, Dr. Vingoe held a number of positions, ranging from interpreting geophysicist, through General Management of various multi-disciplinary teams to Technology Director. In 1995, he moved to Australia to co-lead the IPO of an Australian independent, Novus Petroleum. Over the ensuing five years, the Company acquired a portfolio of assets across Asia, Africa and the Middle East. In 2000, he took up the role of Managing Director of Sasol Petroleum International (SPI) based initially in Johannesburg. In 2005, he joined Energy Equity Resources where he directed all the exploration and appraisal activity as well as communicating with investors and raising investment capital. During 2005 and 2006, he was also a non-executive director of the Canadian-listed company Pan-Ocean Energy Corporation Ltd. Pan-Ocean was sold to Addax for USD 1.5 billion in September 2006. He resigned from EER in November 2007 in order to lead the creation of Pan-Petroleum and has been instrumental in the merger and creation of Panoro Energy.

Dr. Vingoe is a UK citizen and resides in London, England.

KATHERINE H. STØVRING
Non-Executive Director

Ms Støvring is a former Vice President International Exploration and Production in Statoil, and prior to this worked with Planning and Performance Management in the Gas, Power and Renewables division of BP plc in London. Ms. Støvring graduated from London Business School (Sloan Programme) in 2001. In addition she is a member of the Norwegian Bar and a Solicitor Admitted to the Rolls of England and Wales.

Ms Støvring is a Norwegian and US citizen and resides in Oslo, Norway.

RAGNAR SØEGAARD
Non-Executive Director

Mr. Søegaard has over the last 16 years worked as CFO in the E-Co Energi Group, and has long experience from high-level managerial positions in large companies as well as comprehensive experience as a board member in Norwegian and international companies. He has broad background in management, finance and accounting, strategic planning, negotiations, and project management on an international level. Furthermore, he has experience from teaching and lecturing at university master-degree level. He is the author of «Cash management in Construction» and «Financial Accounting» and has published several articles in professional journals.

Mr. Søegaard is a Norwegian citizen and resides in Oslo, Norway.

TORD PEDERSEN

Non-Executive Director

Tord Director has 30 years' experience in international E&P activity. He has extensive experience in business development, contract negotiations and setting up new business in multiple locations in Africa, Middle East and South East Asia. For more than two decades he has held a variety of management positions, and recently joined Core Energy AS as a partner. Prior to this, he was the Managing Director for Endeavour Energy Norway since 2005. In April 2009, the German gas utility company VNG AG acquired the shares of Endeavour Energy Norway for USD 150 million and Mr. Pedersen continued in the position of Managing Director for the new company until resigning end 2010. From 2001 he worked for ConocoPhillips in the Middle East and Norway as Business Development Manager. Prior to this he worked 11 years for Saga Petroleum (later Norsk Hydro) overseeing international business development in SE Asia, Africa and Middle East. Mr. Pedersen holds a degree in geology from the University of Trondheim (1981).

Mr. Pedersen is a Norwegian citizen and resides in Oslo, Norway.

CHRISTINE M.K. WHEELER

Non-Executive Director

Christine M.K. Wheeler commenced her career advising clients in the upstream sector of the oil industry when she joined Arthur Young, Chartered Accountants in 1973. She has advised on UK oil taxation issues since that time, including lobbying for fiscal changes. More recently, her advisory role has focused on structuring and commercial transactions from small farm-ins to acquisitions and disposals, the largest of which was USD 2 billion. She was the head of the natural resources division of Ernst & Young and subsequently, for ten years, was the chairman of an independent consultancy. She now has an active consultancy which remains focused on exploration and production activities in the UK and overseas. Christine was also a non-executive director of Setanta Energy B.V. until 2009, an exploration and production company with its focus on West Africa. In 1994, she was awarded the OBE for services to the oil industry. She is the chairman of Encore Oil plc (a UK focused exploration and production company listed on the Alternative Investment Market (AIM) on the London Stock Exchange). Ms Wheeler is Officer of the Order of the British Empire (OBE).

Ms. Wheeler is a UK citizen and resides in London, England.

SENIOR MANAGEMENT

KJETIL SOLBRÆKKE

Chief Executive Officer

In 1989, he completed his degree in Economics at the University of Oslo. After graduation he worked for the Ministry of Petroleum and Energy in Norway for six years. Mr. Solbrække joined Hydro in 1998, where he held many different positions including Chief Financial Officer and Senior Vice President of International Business Development. In 2005, Mr. Solbrække became the Country manager for Hydro Brazil, responsible for establishing Hydro Oil and Energy within Brazil. On October 1, 2007 after the Statoil and Hydro merger, Mr. Solbrække was appointed Senior Vice President for the South Atlantic Region, with responsibility for Latin America and Africa in the Department of International Exploration and Production in the newly formed Norwegian oil and gas giant StatoilHydro, based in Oslo. He joined Norse in early 2008 as Chief Executive Officer of the Brazilian subsidiary, and continued as CEO of Panoro Energy ASA after demerger from Norse Energy and merger with Pan-Petroleum in 2010.

Mr. Solbrække is a Norwegian citizen and resides in London, England.

ANDERS KAPSTAD

Chief Financial Officer

Mr. Kapstad joined Norse Energy Corp. ASA in August 2005. Mr. Kapstad holds a Bachelor of Science degree from the University of San Francisco and an MBA from SDA Bocconi in Milan, Italy. Mr. Kapstad has 15 years of investment banking experience, holding positions within equity sales, portfolio management, private banking and corporate finance. He continued as CFO of Panoro Energy ASA after demerger from Norse Energy and merger with Pan-Petroleum in 2010.

Mr. Kapstad is a Norwegian citizen and resides in Oslo, Norway.

NISHANT DIGHE
Chief Operating Officer

Nishant Dighe is the COO of Panoro Energy. Nishant obtained a first class honours Master of Engineering degree in Chemical Engineering from Imperial College, London and a MBA from Warwick University. He initially worked for Mobil and ExxonMobil in the UK and US on assets located in Europe, US, Middle East and Africa. Following his MBA, Nish joined Marakon Associates, a value based management consultancy. He re-joined the oil industry working for Sasol International, its upstream arm, working in both East and West Africa. Mr. Dighe and Dr. Phil Vingoe founded Pan-Petroleum in 2007.

Mr. Nishant Dighe is a UK citizen and resides in London, England.

THOR A. TANGEN
EVP Field Development

Mr. Tangen has 35 years of experience in the upstream Oil & Gas sector, mainly with Norsk Hydro and Statoil. He has been project director/asset manager for a variety of large upstream initiatives (e.g., Njord, Troll Oil, Grane and Ormen Lange). All of these fields represented new innovative solutions in the Oil & Gas industry. Both Ormen Lange, a USD 10 billion natural gas field development, and Troll Oil, a USD 5 billion crude oil field development, received several international prizes for their successful technology applications.

Mr. Tangen is a Norwegian citizen and resides in Oslo, Norway.

RICHARD MORTON
VP Subsurface

Richard Morton is an oil industry professional with a strong international technical and operations background. He has over 20 years international experience with oil and service companies where his original technical focus was quantitative interpretation and reservoir characterization. Mr. Morton has worked in a number of challenging contracting and operating environments, most recently as Centrica Energy's Exploration Manager for Nigeria. Mr. Morton obtained a B.Sc. in Physics from Essex University in 1989 and went on to complete a M.Sc. in Applied Geophysics from the University of Birmingham the following year. Mr. Morton joined Pan-Petroleum in November 2008.

Mr. Richard Morton is a UK citizen and resides in London, England.

CARL PETER BERG
General Manager Panoro Energy do Brasil

Mr. Berg was until the demerger with Norse, CFO of Norse Energy do Brasil. Mr. Berg joined Norse Energy do Brasil in August 2006. Mr. Berg holds a Masters degree in Business Administration from the Norwegian School of Economics and Business Administration (NHH). Mr. Berg has long experience in administrative and financial planning positions including positions with Siemens Oil & Gas, Cap Gemini Ernst & Young AS and CMA Asset Management ASA.

Mr. Berg is a Norwegian citizen and resides in Rio de Janeiro, Brazil.


PMNT-1


SUPERPESA

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2010

USD 000	Notes	2010	2009
Total revenues	4	**44,354**	**34,650**
Expenses			
Production costs		(5,160)	(4,002)
Exploration related costs		(4,811)	(14,162)
Depreciation	10,11	(8,703)	(6,423)
Impairment	9	(1,686)	(13,679)
Merger and restructuring costs	5	(6,217)	-
General and administrative costs	5	(13,358)	(7,293)
Total operating expenses		**(39,935)**	**(45,559)**
Operating profit/(loss)	5	**4,419**	**(10,909)**
Gain on acquisition of subsidiary	3	2,329	-
Fair value movements on warrants liability	19	(1,154)	-
Net foreign exchange (loss)/gain		(1,160)	33,075
Interest income	6	2,103	3,704
Interest expense	6	(26,948)	(17,051)
(Loss)/income before income taxes		**(20,411)**	**8,819**
Income tax benefit / (expense)	7	5,254	(4,719)
Net (loss)/profit		**(15,157)**	**4,100**
Exchange differences arising from translation of foreign operations		8,357	20,620
Other comprehensive income		**8,357**	**20,620**
Total comprehensive (loss)/ income		**(6,800)**	**24,720**
Net (loss)/income attributable to:			
Equity holders of the parent		(13,784)	7,932
Non-controlling interests		(1,373)	(3,832)
Total		**(15,157)**	**4,100**
Total comprehensive income attributable to:			
Equity holders of the parent		(4,413)	26,158
Non-controlling interests		(2,387)	(1,438)
Total		**(6,800)**	**24,720**
Basic and diluted earnings per share	8	(0.12)	0.17

The annexed notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2010

USD 000	Note	2010	2009
ASSETS			
Non-current assets			
Intangible assets			
Licenses and exploration assets	9	190,814	123,295
Deferred tax assets	7	31,682	24,090
Total intangible assets		**222,496**	**147,385**
Tangible assets			
Production assets and equipment	10	109,663	110,756
Property, furniture, fixtures and equipment	11	1,329	2,743
Other non-current assets		1,803	1,791
Total tangible assets		**112,795**	**115,290**
Total non-current assets		**335,291**	**262,675**
Current assets			
Accounts and other receivables	12	22,738	14,864
Cash and cash equivalents	13	60,269	9,423
Restricted cash	13	1,444	3,682
Total current assets		**84,451**	**27,969**
TOTAL ASSETS		**419,742**	**290,644**
EQUITY AND LIABILITIES			
Equity			
Share capital	14	38,141	17
Share premium		213,983	156
Additional paid-in capital		63,080	-
Total paid-in equity		**315,204**	**173**
Other equity		(92,930)	67,124
Total equity attributable to shareholder of the parent		**222,274**	**67,297**
Non-controlling interest		-	30,084
Total equity		**222,274**	**97,381**
Non-current liabilities			
Non-current interest bearing debt	15	136,365	-
Deferred tax liability	7	8,535	-
Other non-current liabilities	16	8,278	8,263
Asset retirement obligation	17	12,665	12,665
Total non-current liabilities		**165,843**	**20,928**
Current liabilities			
Accounts payable and accrued liabilities	18	28,316	33,827
Current interest bearing debt	15	1,614	138,508
Other financial liabilities	19	1,199	-
Corporation tax liability		496	-
Total current liabilities		**31,625**	**172,335**
TOTAL EQUITY AND LIABILITIES		**419,742**	**290,644**

The annexed notes form an integral part of these financial statements.

As at December 31, 2010

		Attributable to the equity holders of the parent								
USD 000	Note	Issued capital	Share premium	Additional paid-in capital	Retained earnings	Other reserves	Currency translation reserve	Total	Non-controlling interest	Total equity
At January 1, 2009		-	-	-	-	-	-	-	-	-
Balances of Brazilian subsidiary forming part of comparative information		-	-	-	(76,213)	117,179	-	40,966	31,522	72,488
Net profit/(loss)		-	-	-	7,932	-	-	7,932	(3,832)	4,100
Other comprehensive income		-	-	-	-	-	18,226	18,226	2,394	20,620
Total comprehensive income/(loss)		-	-	-	7,932	-	18,226	26,158	(1,438)	24,720
Share issue	14	17	156	-	-	-	-	173	-	173
At December 31, 2009		**17**	**156**	**-**	**(68,281)**	**117,179**	**18,226**	**67,297**	**30,084**	**97,381**
At January 1, 2010		**17**	**156**	**-**	**(68,281)**	**117,179**	**18,226**	**67,297**	**30,084**	**97,381**
Net loss		-	-	-	(13,784)	-	-	(13,784)	(1,373)	(15,157)
Other comprehensive income/(loss)		-	-	-	-	-	9,371	9,371	(1,014)	8,357
Total comprehensive income /(loss)		-	-	-	(13,784)	-	9,371	(4,413)	(2,387)	(6,800)
Reduction of share capital		(17)	(156)	-	-	-	-	(173)	-	(173)
Share issue on execution of demerger and merger	14	38,141	217,389	63,080	-	(156,206)	-	162,404	(27,697)	134,707
Trasaction costs on share issue		-	(3,406)	-	-	-	-	(3,406)	-	(3,406)
Employee share options	20	-	-	-	565	-	-	565	-	565
At December 31, 2010		**38,141**	**213,983**	**63,080**	**(81,500)**	**(39,027)**	**27,597**	**222,274**	**-**	**222,274**

The annexed notes form an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2010

USD 000	Notes	2010	2009
Cash flows from operating activities			
Net (loss)/ income for the year before tax	5	(20,411)	8,819
Adjusted for:			
Depreciation	10,11	8,703	6,423
Fair value movements on warrants	19	1,154	-
Non-cash dry-hole and exploration related costs		-	7,300
Asset write off and impairment	9	5,686	13,679
Net gain on sale of tangible assets		(67)	-
Net finance costs	6	24,845	13,347
Share based payments	20	565	-
Gain on acquisition of subsidiary	3	(2,329)	-
Foreign exchange gains/losses		27	(33,075)
Increase/(decrease) in trade and other payables		(9,328)	6,555
(Increase)/decrease in trade and other receivables		231	1,086
Movement in other liabilities and asset retirement obligations	16,17	(3,500)	-
Taxes paid		(881)	(340)
Net cash flows from operating activities		**4,695**	**23,794**
Cash flows from investing activities			
Investment in exploration, production and other assets	9,10,11	(9,591)	(16,107)
Proceeds from sale of property	11	1,798	-
Proceeds from sales of assets held for sale	9	30,000	-
Net cash acquired at acquisition of subsidiary		4,304	-
Net cash flows from investing activities		**26,511**	**(16,107)**
Cash flows from financing activities			
Net proceeds from issuance of shares	14	54,753	173
Reduction of share capital		(173)	-
Interest paid		(30,109)	(9,587)
Interest received		2,103	3,704
Proceeds from debt issue	15	140,865	12,438
Repayments of borrowings	15	(148,752)	(12,416)
Net cash flows from financing activities		**18,687**	**(5,688)**
Effect of foreign currency translation adjustment on cash balances		953	(173)
Change in cash and cash equivalents during the period		50,846	1,826
Cash and cash equivalents at the beginning of the period		9,423	7,597
Cash and cash equivalents at the end of the period		**60,269**	**9,423**

The annexed notes form an integral part of these financial statements.

NOTE 1. CORPORATE INFORMATION

The parent company, Panoro Energy ASA («the Company» - formerly known as New Brazil Holding ASA), was incorporated on April 28, 2009 as a public limited company under the Norwegian Public Limited Companies Act of June 19, 1997 No. 45. The registered organization number of the Company is 994 051 067 and its registered office is Dronning Maudsgt. 1-3, 0124 Oslo, Norway.

The Company and its subsidiaries are engaged in the exploration and production of oil and gas resources in Brazil and West Africa. The consolidated financial statements of the Group for the year ended December 31, 2010 were authorized for issue by the Board of Directors on April 14, 2011.

The Company's shares are traded on the Oslo Stock Exchange under the ticker symbol PEN.

NOTE 2. BASIS OF PREPARATION

The consolidated financial statements of Panoro Energy ASA and its subsidiaries («Panoro» or the «Group») have been prepared in accordance with International Financial Reporting Standards («IFRS») as adopted by the European Union («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.

The consolidated financial statements are presented in USD, which is the functional currency of Panoro Energy ASA. The amounts in these financial statements have been rounded to the nearest USD thousand unless otherwise stated.

Comparative information
Panoro Energy ASA was formed to effect a business combination between two existing entities, Norse Energy do Brasil («NEdB»), a former subsidiary of Norse Energy Corporation («NEC») and Pan-Petroleum Holdings (Cyprus) Limited («PPHCL»). The acquisition by the Company of PPHCL and NEdB were both settled by the issuance of ordinary shares in Panoro Energy ASA in exchange for shares in PPHCL and NEdB. The transaction was effected in a two stage process.

On June 7, 2010, the demerger from NEC was completed, whereby voting shares in a portfolio of the Brazilian assets (NEdB) were split from the NEC group and acquired by the Company. Ordinary shareholders in NEC at the time of demerger were issued one share in the Company («Panoro» or «PEN») for every ten ordinary shares held in NEC.

For the purpose of these financial statements the transfer of NEdB from NEC to the Company has been accounted for under the pooling of interests method which involves presenting companies as if they had always been combined with no fair value adjustments.

The pooling of interests method requires presentation of NEdB and Panoro as a combined business since inception and therefore the comparative information represents the NEdB historical financial statements pooled with Panoro. Having incorporated in 2009, Panoro had no operations up to December 31, 2009 and as such no results of the Company are reflected in the comparative information.

The second step was the acquisition of PPHCL by Panoro, in which Panoro has been considered the acquirer. The assets and liabilities of Pan-Petroleum have been included with fair value adjustments at the date of acquisition.

The rules for first-time adoption of IFRS are applicable to the Group and are set out in IFRS 1 First-time Adoption of International Financial Reporting Standards.

IFRS 1 allows certain exemptions in the application of particular standards to prior periods in order to assist companies with the transition process. The Group has applied the following exemption:

- The cumulative translation differences for foreign operations have been deemed to be zero at the date of transition to IFRS and any gains or losses or subsequent disposals of foreign operations will not therefore include translation differences arising prior to the transition date.

NOTE 2.1 BASIS OF CONSOLIDATION

The consolidated financial statements include Panoro Energy 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.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

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.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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 acquiree 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.

NOTE 2.2 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

Estimates and assumptions

The preparation of the financial statements in conformity with IFRS as adopted by the EU requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

In particular, significant areas of estimation uncertainty considered by management in preparing the consolidated financial statements are as follows:

Reserves

The Group generally obtains independent evaluations for each asset whenever new information becomes available that materially influences the reported results. 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.

Exploration and leasehold costs

The Group capitalizes the costs of drilling exploratory wells and leasehold costs when it is considered probable that future economic benefits will be recoverable. 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.

Judgments

In the process of applying the Group's accounting policies, the directors have made the following judgments, apart from those involving estimates, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Impairment indicators
The Group assesses each cash generating unit annually to determine whether an indication of impairment exists. When an indication of impairment exists, a formal estimate of the recoverable amount is made.

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the oil price assumption may change which may then impact the estimated life of the field and may then require a material adjustment to the carrying value of goodwill and tangible assets. The Group monitors internal and external indicators of impairment relating to its tangible and intangible assets.

Asset retirement costs and obligations
Asset retirement costs will be incurred by the Group at the end of the operating life of certain Group facilities and properties. The ultimate asset retirement costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure can also change, for example in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

Technical risk in development of oil and gas fields and production start-up
The development of the oil and gas fields in which the Group has an ownership is associated with significant technical risk and uncertainty with regards to timing of production start. Risks include, but are not limited to, cost overruns, production disruptions as well as delays compared to initial plans laid out by the operator. Some of the most important risk factors are related to the determination of reserves, the recoverability of reserves, and the planning of a cost efficient and suitable production method. There are also technical risks present in the production phase that may cause cost overruns, failed investment, and destruction of wells and reservoirs.

Income taxes
The Group recognizes the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the Group to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction, to the extent that future cash flows and taxable income differ significantly from estimates. The ability of the Group to realize the net deferred tax assets recorded at the date of the statement of financial position could be impacted.

Additionally future changes in tax laws in the jurisdictions in which the Group operates could limit the ability of the Group to obtain tax deductions in future periods.

Contingencies
By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

NOTE 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Joint ventures
IFRS defines joint control as contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Jointly controlled assets
A jointly controlled asset involves joint control and offers joint ownership by the Group and other venturers of assets contributed to or acquired for the purpose of the joint venture, without the formation of a corporation, partnership or other entity.

The Group accounts for its share of the jointly controlled assets, any liabilities it has incurred, its share of any liabilities jointly incurred with other ventures, income from the sale or use of its share of the joint venture's output, together with its share of the expenses incurred by the joint venture, and any expenses it incurs in relation to its interest in the joint venture.

Foreign Currency translation
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates («the functional currency»).

The functional currency of the Group's subsidiaries incorporated in Gabon, Nigeria, Cyprus, Netherlands, British Virgin Islands, Republic of Congo and the Cayman Islands is the US dollar («USD»). The functional currency of the Group's Brazilian subsidiaries is Reals («BRL») and for the British subsidiaries is the Pound Sterling («GBP»).

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
Brazilian Real/USD	1.7535	1.6660	2.0249	1.7412
British Pound/USD	1.5444	1.5655	1.5605	1.6147

Transactions in foreign currencies are initially recorded at the functional currency spot rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in foreign currency are translated using the spot exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Business combinations and goodwill
Business combinations are accounted for under IFRS 3 (Revised) using the purchase method. Any excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognised in the statement of financial position as goodwill and is not amortized. To the extent that the net fair value of the acquired entity's identifiable assets, liabilities and contingent liabilities is greater than the cost of the investment, a gain is recognised immediately in the statement of comprehensive income. Any goodwill asset arising on the acquisition of equity accounted entities is included within the cost of those entities. After initial recognition, goodwill is stated at cost less any accumulated impairment losses, with the carrying value being reviewed for impairment, at least annually and whenever events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill is allocated to the related cash-generating units monitored by management, usually at business segment level or statutory company level. Where the recoverable amount of the cash-generating unit is less than its carrying amount, including goodwill, an impairment loss is recognised in the statement of comprehensive income.

The carrying amount of goodwill allocated to a cash-generating unit is taken into account when determining the gain or loss on disposal of the unit, or of an operation within it.

Acquisitions of oil and gas properties are accounted for under the purchase method where the acquisition meets the definition of a business combination.

Transactions involving the purchases of an individual field interest, or a group of field interests, that do not qualify as a business combination are treated as asset purchases, irrespective of whether the specific transactions involved the transfer of the field interests directly or the transfer of an incorporated entity. Accordingly, no goodwill arises and the consideration is allocated to the assets and liabilities purchased on the relative fair values of the assets acquired.

Proceeds on disposals are applied to the carrying amount of the specific intangible asset or development and production assets disposed of and any surplus is recorded as a gain on disposal in the statement of comprehensive income.

License interests, exploration and evaluation assets and field investments and depreciation
The Group applies the «successful efforts» method of accounting for Exploration and Evaluation («E&E») costs, in accordance with IFRS 6 «Exploration for and Evaluation of Mineral Resources». E&E expenditure is capitalized when it is considered probable that future economic benefits will be recoverable. Costs that are known at the time of incurrence to fail to meet this criterion are generally charged to expense in the period they are incurred.

E&E expenditure capitalized as intangible assets includes license acquisition costs and exploration drilling.

E&E expenditure, which is not sufficiently related to a specific mineral resource to support capitalization, is expensed as incurred.

E&E assets are carried forward, until the existence, or otherwise, of commercial reserves have been determined subject to certain limitations including review for indications of impairment. If no reserves are found, the costs to drill exploratory wells, including exploratory geological and geophysical costs and costs of carrying and retaining unproved properties, are written off.

Once commercial reserves have been discovered, the carrying value after any impairment loss of the relevant E&E assets is transferred to development tangible and intangible fixed assets. No depreciation and/or amortization is charged during the exploration and development phase. If however, commercial reserves have not been discovered, the capitalized costs are charged to expense after the conclusion of appraisal activities.

Development tangible and intangible assets
Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of commercially proven development wells, is capitalized within property, plant and equipment and intangible assets according to nature.

When development is completed on a specific field, it is transferred to production assets. No depreciation or amortization is charged during the Exploration and Evaluation phase.

Oil & gas production assets
Development and production assets are accumulated on a cash generating unit basis and represent the cost of developing the commercial reserves discovered and bringing them into production together with E&E expenditures incurred in finding commercial reserves transferred from intangible E&E assets as outlined in accounting policy above.

The cost of development and production assets also includes the cost of acquisitions and purchases of such assets, directly attributable overheads and the cost of recognizing provisions for future restoration and decommissioning.

Where major and identifiable parts of the production assets have different useful lives, they are accounted for as separate items of property, plant and equipment. Costs of minor repairs and maintenance are expensed as incurred.

Depreciation/amortization
Oil and gas properties and intangible assets are depreciated or amortized using the unit-of-production method. Unit-of-production rates are based on proved and probable reserves, which are oil, gas and other mineral reserves estimated to be recovered from existing facilities using current operating methods. Oil and gas volumes are considered produced once they have been measured through meters at custody transfer or sales transaction points at the outlet valve on the field storage tank.

Impairment – exploration and evaluation assets
Exploration and evaluation assets are tested for impairment when reclassified to development tangible or intangible assets, or whenever facts and circumstances indicate impairment and prior to year-end in an annual review. An impairment loss is recognised for the amount by which the exploration and evaluation assets' carrying amount exceeds their recoverable amount. The recoverable amount is the higher of the exploration and evaluation assets' fair value less costs to sell and their value in use.

Impairment – proved oil and gas production properties and intangible assets
Proven oil and gas properties and intangible assets are reviewed annually for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The carrying value is compared against the expected recoverable amount of the asset, generally by net present value of the future net cash flows, expected to be derived from production of commercial reserves. The cash generating unit applied for impairment test purposes is generally the field, except that a number of field interests may be grouped together where there are common facilities

Financial assets
Financial assets within the scope of IAS 39 are classified as financial assets through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives, as appropriate. The group determines the classification of its financial assets at initial recognition.

The Group's financial assets include cash, trade and certain other receivables.

Trade and other receivables
Trade and other receivables are measured at amortized cost less impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

Cash and cash equivalents
Cash and cash equivalents include cash at hand, and deposits held on call with banks. Restricted cash with banks is not considered as a cash equivalent.

Impairment of financial assets
The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred «loss event») and that the loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial liabilities
Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings or as derivatives, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the cash of loans and borrowing, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, and loans and borrowings.

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

Loans and borrowings
All borrowings are initially recorded at fair value. Interest-bearing loans and overdrafts are initially recorded at the proceeds received, net of directly attributable issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the statement of comprehensive income using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Where borrowings are made at rates of interest below the normal commercial rate, borrowings are discounted to fair value based on market rates of interest for similar arrangements.

The Group has issued warrants that are denominated in USD. The warrants are settled in NOK. The IAS 32 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 statement of comprehensive income.

Provisions
General
Provisions are recognised 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 recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is recognised 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 recognised as interest expense. The present obligation under onerous contracts is recognised as provision.

Asset retirement obligation
An asset retirement liability is recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. A corresponding amount equivalent to the obligation is also recognised as part of the cost of the related production plant and equipment. The amount recognised in the estimated cost of asset retirement, discounted to its present value. Changes in the estimated timing of asset retirement or asset retirement cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to production plant and equipment. The unwinding of the discount on the asset retirement provision is included as a finance cost.

The Group recognizes neither the deferred tax asset regarding the temporary difference on the asset retirement liability nor the corresponding deferred tax liability regarding the temporary difference on an asset retirement obligation.

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

Current tax
Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date, in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations where applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax
Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affect neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences; carry forward to unused tax credits and unused tax losses, to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized except:

- Where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, associate and interest in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized directly in equity is recognized in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue from petroleum products

Revenue from the sale petroleum products is recognized as income using the «entitlement method». Under this method, revenue is recorded on the basis of the asset's proportionate share of total gas sold from the affected wells. Revenue is stated net of value-added tax and royalties.

Interest income

Interest income is recognized on an accruals basis using the effective interest method.

Rendering of services

Sales of services are recognized in the accounting period in which the services are rendered, and it is probable that the economic benefits associated with the transaction will flow to the entity, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: whether fulfillment or the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

For arrangements entered into prior to 1 January 2005, the date of inception is deemed to be 1 January 2005 in accordance with the transitional requirements of IFRIC 4.

Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in the statement of comprehensive income.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognized as an expense in the statement of comprehensive income on a straight line basis over the lease term.

Property, plant and equipment
Property, plant and equipment not associated with exploration and production activities are carried at cost less accumulated depreciation. These assets are also evaluated for impairment. Depreciation of other assets is calculated on a straight line basis as follows:

Computer equipment	20 - 33.33%
Furniture, Fixtures & fittings	10 - 33.33%

Defined contribution pension plan
The Group pays contributions into a defined contribution plan. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

NOTE 2.4 NEW AND AMENDED STANDARDS AND INTERPRETATIONS

The Group has adopted new standards and interpretations that became effective for accounting periods beginning January 1, 2010. The impacts of new standards are noted below:

- **IFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions**
  The standard has been amended to clarify the accounting for group cash-settled share-based payment transactions. This amendment also supersedes IFRIC 8 and IFRIC 11. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

- **IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)**
  The Group applies the revised standards from January 1, 2010. IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes have impacted the amount of goodwill recognised and the reported results in the period.
  IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will they give rise to gains or losses. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes for IAS 27 (Amended) will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests. The change in accounting policy was applied prospectively and had no material impact on earnings per share.

- **IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items**
  The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The amendment had no effect on the financial position nor performance of the Group.

- **IFRIC 17 Distribution of Non-cash Assets to Owners**
  This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation had no effect on the financial position nor performance of the Group.

- **Improvements to IFRSs (issued May 2008)**
  In May 2008, the Board issued its first omnibus of amendments to its standards. All amendments issued are effective for the Group as at December 31, 2010, apart from the following:

  IFRS 5 Non-current Assets Held for Sale and Discontinued Operations:
  Clarifies when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even when the entity remains a non-controlling interest after the sale transaction. The amendment is applied prospectively and had no impact on the financial position nor financial performance of the Group.

- **Improvements to IFRSs (issued April 2009)**
  In April 2009, the Board (IASB) issued its second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

  IFRS 8 Operating Segment Information:
  Clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Group's chief operating decision maker does review segment assets, the Group has

continued to disclose this information in Note 4.

IAS 7 Statement of Cash Flows:
Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. This amendment will impact the presentation in the statement of cash flows of the contingent consideration on the business combination completed in 2010 upon cash settlement. Management will make an assessment of impact when such transaction happens.

IAS 36 Impairment of Assets:
The amendment clarified that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Group as the annual impairment test is performed before aggregation.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRS 2 Share-based Payment
- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
- IAS 1 Presentation of Financial Statements
- IAS 17 Leases
- IAS 38 Intangible Assets
- IAS 39 Financial Instruments: Recognition and Measurement
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 16 Hedge of a Net Investment in a Foreign Operation

The Group has not early adopted any other standard, interpretation or amendment that was issued but is not yet effective.

NOTE 2.5 STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. The listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The group intends to adopt those standards when they become effective.

- **IAS 24 Related Party Disclosures (amendment)**
  The amended standard is effective for annual periods beginning on or after January 1, 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduced a partial exemption of disclosure requirements for government-related entities. The Group does not expect any impact on its financial position or performance.

- **IAS 32 Financial instruments: Presentation – Classification of rights issues**
  The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and changed the definition of a financial liability in order to classify rights issues (and certain options and warrants) as equity instruments in cases where such rights are given pro rata to all the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The Group does not expect any impact on its financial position or performance.

- **IFRS 9 Financial Instruments: Classification and Measurement**
  IFRS 9 as issued reflects the first phase of the Boards work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after January 13, 2013. In subsequent phases, the Board will address classification and measurement of financial liabilities. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets. However, the Group determined that the effect shall be quantified in conjunction with the other phases when issued to present a comprehensive picture.

- **IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments**
  IFRIC 19 is effective for annual periods beginning on or after July 1, 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case this cannot be reliably measured, they are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss. The adoption of this interpretation will have no significant impact on the financial statements of the Group.

- **Improvements to IFRSs (issued in May 2010)**
  The IASB issued Improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either July 1, 2010 or January 1, 2011. The amendments listed below, are considered to have a reasonably possible impact on the Group:
  - IFRS 3 Business Combinations
  - IFRS 7 Financial Instruments: Disclosures
  - IAS 1 Presentation of Financial statements
  - IAS 27 Consolidated and separate financial statements

The Group, however, expects no impact from the adoption of the amendments on its financial position or performance.

NOTE 3. BUSINESS COMBINATIONS

At the time of the demerger described in Note 2, Pan Holding AS («Pan AS») a newly incorporated company under Norwegian law acquired a 30% interest in Norse Energy do Brasil («NEdB») from Sector Asset Management. Thereafter, Pan AS on June 29, 2010 acquired 100% shareholding in Pan-Petroleum Holdings (Cyprus) Limited («PPHCL»). As a result, immediately prior to the merger, Pan AS held 30% interest in NEdB and 100% interest in PPHCL.

The Company completed the acquisition of Pan AS through the issue of 86,942,991 equity shares in exchange for 100% of the equity in Pan AS. Of the total shares issued, 20,063,767 shares represented consideration for the 30% interest in NEdB and the remaining 66,879,224 issued as consideration for 100% interest in PPHCL.

This business combination was executed as a legal merger between Panoro and Pan AS under Norwegian law and immediately following the completion, Pan AS ceased to exist with all assets and liability in Pan AS directly owned by Panoro.

Consideration as of June 29, 2010

	USD 000
Issue of ordinary shares (66,879,224 shares at USD 0.943) (i)	63,067

(i) Purchase consideration has been determined based on the consideration shares attributable to the PPHCL in the combined entity using share price as of June 29, 2010 when the merger became effective.

Details of assets acquired and liabilities assumed

The provisional fair values of the identifiable assets and liabilities of Pan AS as at the date of acquisition are as follows:

	USD 000
Cash and cash equivalents	4,304
Furniture, fixtures and equipment	298
Prepayments and other receivables(ii)	1,878
Intangibles, exploration and evaluation assets	59,691
Assets held-for-sale	30,000
Total Assets	**96,171**
Accounts payable, accruals and other liabilities	7,592
Loan from shareholder (Sector)	10,244
Income tax payable	55
Deferred tax liability	8,533
Non-current liabilities	4,351
Total liabilities	**30,775**
Fair value of net assets at acquisition	65,396
Gain on acquisition of subsidiary(iii)	(2,329)
Total consideration	**63,067**

Cash inflow on acquisition	
Net cash acquired with the subsidiary	**4,304**

(ii) The fair value of assets acquired includes receivables of USD 1.8 million which is the gross amount and expected to be recovered in full.

(iii) Gain on acquisition of subsidiary represents excess of fair value of net assets acquired over the purchase consideration. The gain is a direct consequence of the relatively low share price of the Company on the acquisition date.

(iv) If the combination had taken place at beginning of the year, Pan-Petroleum related assets would have contributed nil to revenue and an additional loss of USD 9.9 million to the group.

(v) From the date of acquisition to December 31, 2010, the acquired business contributed a USD 5.1 million loss to the group's result.

(vi) Acquisition related costs included advisory fees which have been recognised in the Group's statement of comprehensive income amounted to USD 6.2 million. Pre-acquisition merger and demerger related costs approximated to USD 1.3 million comprising legal, consultancy and advisory costs.

NOTE 4. OPERATING SEGMENTS

The Group operates predominantly in a business segment being the exploration and production of oil and gas, which is split by geographic areas for management purposes and the two regions being West Africa and Brazil.

The Group's reportable segments, for both management and financial reporting purposes, are as follows:

- West Africa
- Brazil
- Other (this category consists of head office and service company operations that are not directly attributable to the other segments.)

Management monitors the adjusted EBITDA and capital expenditure of business segments separately for the purpose of making decisions about resources to be allocated and of assessing performance.

Adjusted EBITDA is measured as earnings before interest, tax, depreciation, amortization, asset write-off, foreign exchange gains or losses, fair value movement on warrants, share based payments and gain on acquisition of subsidiary.

Details of group segments are reported below.

2010

USD 000	Brazil	West Africa	Corporate	Total
Revenue	44,354	-	-	44,354
EBITDA	29,344	175	(14,146)	15,373
Depreciation	(8,579)	-	(124)	(8,703)
Asset write-off	(1,686)	-	-	(1,686)
Share based payments	(51)	(62)	(452)	(565)
Interest income	1,584	-	519	2,103
Interest expense	(17,747)	-	(9,201)	(26,948)
Net foreign exchange gain/(loss)	2,013	(4)	(3,169)	(1,160)
Fair value movement on warrants	-	-	(1,154)	(1,154)
Gain on acquisition	-	-	2,329	2,329
Income tax	5,674	-	(420)	5,254
Net profit/(loss)	**10,552**	**109**	**(25,818)**	**(15,157)**
Segments Assets	299,033	68,630	52,079	419,742
-Additions to non-current assets	2,082	66,936*	562	69,580

*includes USD 59.7 million of assets acquired through the merger with Pan-Petroleum

2009

USD 000	Brazil	West Africa	Corporate	Total
Revenue	34,650	-	-	34,650
EBITDA	9,211	-	-	9,211
Depreciation	(6,423)	-	-	(6,423)
Impairment	(13,697)	-	-	(13,697)
Interest income	3,704	-	-	3,704
Interest expense	(17,051)	-	-	(17,051)
Net foreign exchange gain	33,075	-	-	33,075
Income tax	(4,719)	-	-	(4,719)
Net profit	**4,100**	**-**	**-**	**4,100**
Segments Assets	290,644	-	-	290,644
-Additions to non-current assets	24,339	-	-	24,339

Revenue from major sources:

USD 000	2010	2009
Natural gas revenue	44,103	34,352
Oil revenue	-	298
Other income	251	-
Total revenue	**44,354**	**34,650**

One customer makes up 100% of the Group's revenue.

There are no differences in the nature of measurement methods used on segment level compared with the consolidated financial statements.

NOTE 5. OPERATING PROFIT

Operating profit is stated after (charging)/crediting:

USD 000	Notes	2010	2009
Employee benefits expense		(6,343)	(3,261)
Depreciation	10,11	(8,703)	(6,423)
Impairment	9	(1,686)	(13,679)
Operating lease payments	24	(1,199)	(354)
Merger and restructuring costs		(6,217)	-

NOTE 5a. EMPLOYEE BENEFIT EXPENSES

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

USD 000	2010	2009
Salaries	4,528	2,354
Employers contribution	933	907
Other compensation	882	-
Total	**6,343**	**3,261**

The number of employees in the Group as at year end is detailed below:

	2010	2009
Number of employees	37	20

NOTE 5b. BOARD OF DIRECTORS STATEMENT ON REMUNERATION OF EXECUTIVES

Statement for the current year (2010)
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 remuneration of the members of the Board is determined on a yearly basis by the Company at its Annual General Meeting. The directors may also be reimbursed for, inter alia, travelling, hotel and other expenses incurred by them in attending meetings of the directors or in connection with the business of Panoro Energy. A director who has been given a special assignment, besides his normal duties as a director of the Board, in relation to the business of Panoro Energy may be paid such extra remuneration as the directors may determine.

Panoro Energy ASA has established a compensation programme 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 etc.), while the variable elements consist of a performance based bonus arrangement and a share option scheme that was approved by the Board of Directors in 2010. The annual bonus will be determined based on the achievement of certain pre-set targets.

Refer to note 20 for further information on the share option scheme

NOTE 5c. MANAGEMENT REMUNERATION

Executive management is considered to consist of the CEO, CFO, COO and EVP Field Development.

Executive management remuneration is summarized below:

USD 000 (unless stated otherwise)	Short term benefits					
	Salary	**2010 bonus**	**Benefits**	**Pension costs**	**No. Options awarded in 2010**	**Share based payment charge**
Kjetil Solbrække, CEO	333	90	66	3	750,000	81
Anders Kapstad, CFO	179	115	17	20	500,000	54
Nishant Dighe, COO	157	94	8	23	500,000	54
Thor Tangen, EVP Field Development	159	66	2	12	500,000	54
Total	**828**	**365**	**93**	**58**		**243**

The compensation of Kjetil Solbrække represents seven months remuneration paid under Panoro after the demerger in the capacity of Chief Executive Officer of the Company.

The compensation of Anders Kapstad represents seven months remuneration paid under Panoro after the demerger in the capacity of Chief Financial Officer of the Company.

The compensation of Nishant Dighe and Thor Tangen in the respective capacities of Chief Operating Officer and EVP Field Development represents six months of compensation under Panoro since the merger.

Remuneration prior to the demerger and merger for these key personnel was in the capacity of their previous positions held in NEC and PPHCL and therefore is not included in the aforementioned table.

The Group has a long-term note receivable from Kjetil Solbrække, CEO, of USD 1.2 million. The note principal is due in March 2013 and carries an interest rate of 3%.

NOTE 5d. BOARD OF DIRECTORS REMUNERATION

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

USD 000	**2010**	**2009**
Phil Vingoe	52	-
Tord Pedersen	35	-
Katherine Støvring	46	-
Christine Wheeler	35	-
Ragnar Søegaard	46	-
Total	**214**	**-**

There was no remuneration paid by the Company to the Directors in 2009.

No loans have been given to, or guarantees given on the behalf of, any members of the Management Group, the Board or other elected corporate bodies with the exception of the loan note to the CEO mentioned above.

NOTE 5e. PENSION PLAN

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 contributes to an external defined contribution scheme and therefore no pension liability is recognized in the statement of financial position.

NOTE 5f. AUDITORS' REMUNERATION

Fees, excluding VAT, to the auditors are included in general and administrative expense and are shown below:

USD 000	2010	2009
Ernst & Young		
Statutory audit	377	-
Tax services	9	-
Other	384	-
Deloitte		
Statutory audit	1	132
Tax services	-	110
Other	215	-
Total	**986**	**242**

NOTE 6. FINANCE INCOME AND EXPENSE

Finance expense

USD 000	2010	2009
Interest expense and bank charges	22,879	16,564
Other financial expense	4,069	487
Total	**26,948**	**17,051**

Finance income

USD 000	2010	2009
Interest income	2,103	3,704
Total	**2,103**	**3,704**

NOTE 7. INCOME TAX

Income tax

The major components of income tax in the consolidated statement of comprehensive income are:

USD 000	2010	2009
Income Taxes		
Current income tax	(2,270)	(2,315)
Deferred income tax	7,524	(2,404)
Total tax benefit / (charge) for the period	**5,254**	**(4,719)**

A reconciliation of the income tax expense applicable to the accounting profit before tax at the statutory income tax rate to the expense at the Group's effective income tax rate is as follows:

USD 000	2010	2009
(Loss) / profit before taxation	**(20,411)**	**8,819**
Tax calculated at domestic tax rates applicable to profits in the respective countries	(5,627)	2,998
Expenses not deductible	2,485	638
Income not taxable	-	(865)
Differences due to functional currency effects in subsidiaries	(4,910)	435
Gain on acquisition of subsidiary	(652)	-
Tax effect of losses not utilised in the period	5,696	-
Effect of differing tax rates	(1,170)	1,513
Expenses exclusively deductible for tax purposes	(954)	-
Others	(122)	-
Tax (benefit) / charge	**(5,254)**	**4,719**

Deferred tax

The analysis of deferred tax assets and deferred tax liabilities is as follows:

USD 000	2010	2009
Deferred tax assets		
- to be reversed within 12 months	-	-
- to be reversed after more than 12 months	31,682	24,090
Total deferred tax assets	**31,682**	**24,090**
Deferred tax liabilities		
- to be reversed within 12 months	-	-
- to be reversed after more than 12 months	8,535	-
Total deferred tax liabilities	**8,535**	**-**
Net deferred tax assets	**23,147**	**24,090**

The gross movement on the deferred income tax account is as follows:

USD 000	2010	2009
As at January 1	24,090	26,494
Credit/(charge) for the period	7,524	(2,404)
Liability arising on acquisition of subsidiary	(8,467)	-
As at December 31	**23,147**	**24,090**

The movement in deferred income tax assets and liabilities, without taking into consideration the offsetting balances within the same jurisdiction, is as follows:

2010

Deferred tax assets *(USD 000)*	Tax losses	Oil and gas assets	Provisions and others	Total
As at January 1, 2010	13,429	6,033	4,628	24,090
(Charged) / credited to the income statement	5,195	3,072	(707)	7,560
Arising on acquisition of subsidiary	-	-	32	32
As at December 31, 2010	**18,624**	**9,105**	**3,954**	**31,682**

Deferred tax liabilities *(USD 000)*	Tangible assets	Exploration assets	Total
As at January 1, 2010	-	-	-
Charged / (credited) to the income statement	36	-	36
Arising on acquisition of subsidiary	-	8,499	8,499
As at December 31, 2010	**36**	**8,499**	**8,535**

2009

Deferred tax assets *(USD 000)*	Tax losses	Oil and gas assets	Provisions and others	Total
As at January 1, 2009	2,885	12,589	11,020	26,494
(Charged) / credited to the income statement	10,544	(6,556)	(6,392)	(2,404)
As at December 31, 2009	**13,429**	**6,033**	**4,628**	**24,090**

Deferred tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefits through future taxable profits is probable.

The Group did not recognize deferred income tax assets of USD 23.1 million (2009: nil) in respect of losses that can be carried forward against future taxable income.

On demerger from Norse Energy Corporation in June 2010, attributable tax loss of NOK 351 million equivalent of approximately USD 60.3 million was assigned to the Company. In addition, tax loss for the year amounted USD 20.6 million. The cumulative loss of USD 80.9 million will be available indefinitely to offset future taxable income of the Company.

Unexpired tax losses in Brazil as of the year end were USD 54.8 million (2009: USD 34 million) which are available to be utilized indefinitely against future taxable income, however, the amount that can only be offset towards taxable income in any given year is limited to 30%.

NOTE 8. BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share

USD 000, unless otherwise stated	2010	2009
Net (loss) /profit attributable to equity holders of the parent	(13,784)	7,932
Weighted average number of shares outstanding - in thousands	116,069	47,717
Basic and diluted earnings per share – (USD)	(0.12)	0.17

The weighted average number of ordinary shares for all the periods presented above have been adjusted by the exchange ratio at the demerger date between NEdB outstanding shares and the attributable share capital of the Company.

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. As of December 31, 2009, no warrants were outstanding for the Group. The 7.5 million warrants issued on June 15, 2010 were outstanding as of December 31, 2010.

The warrants are not considered to have a dilutive effect as they were out-of-the money compared to the average share price since listing of the Company on June 8, 2010 to the end of the year. Further, since the Group incurred a net loss for the year ended December 31, 2010, the warrants have an anti-dilutive effect and therefore, not considered when calculating diluted earnings per share.

The share options in issue also have an anti-dilutive effect on the earnings per share for the periods presented.

NOTE 9. LICENSES AND EXPLORATION ASSETS

2010

USD 000	Brazil	West Africa	Total
Acquisition Cost			
At January 1, 2010	176,021	-	176,021
Acquisitions	-	59,691	59,691
Additions	1,362	7,245	8,607
Asset write-off	(5,686)	-	(5,686)
Foreign currency translation	4,907	-	4,907
At December 31, 2010	176,604	66,936	243,540
Accumulated Impairment/ exploration costs charged to profit			
At January 1, 2010	52,726	-	52,726
Foreign currency translation	-	-	-
At December 31, 2010	52,726	-	52,726
Net carrying value at December 31, 2010	**123,878**	**66,936**	**190,814**

2009

USD 000	Brazil	West Africa	Total
Acquisition Cost			
At January 1, 2009	133,156	-	133,156
Additions	-	-	-
Investments	10,896	-	10,896
Foreign currency translation	38,090	-	38,090
At December 31, 2009	182,142	-	182,142
Accumulated Impairment/ exploration costs charged to profit			
At January 1, 2009	39,047	-	39,047
Impairment/charged to profit	13,679	-	13,679
Foreign currency translation	6,121	-	6,121
At December 31, 2009	58,847	-	58,847
Net carrying value at December 31, 2009	**123,295**	**-**	**123,295**

During the year, license and exploration assets of USD 59.6 million were acquired as part of the merger with Pan-Petroleum. In addition, USD 30 million of held for sale assets were acquired and sold for USD 30 million.

Asset write off and impairment

During 2010, USD 1.7 million was charged to the income statement in relation to the relinquishment of the Sardinha license area in Brazil. This charge is the net expense of the write off of asset cost and liabilities of the Sardinha license:

USD 000	2010
Asset relinquishment- cost	(5,686)
Less: liabilities reversed (note 16)	4,000
Charged to statement of comprehensive income	**(1,686)**

During 2009, USD 7.3 million of exploration related costs were charged to profit relating to the BCAM-40 license. This license was also impaired by USD 13.7 million in 2009 as the license expired during 2009.

NOTE 10. PRODUCTION ASSETS AND EQUIPMENT

USD 000	2010	2009
Acquisition Cost		
At January 1	135,755	98,307
Additions	693	13,443
Foreign currency translation	7,705	24,005
At December 31	144,153	135,755
Accumulated Depreciation		
At January 1	24,999	17,211
Depreciation	8,366	6,016
Foreign currency translation	1,125	1,772
At December 31	34,490	24,999
Net carrying value at December 31	**109,663**	**110,756**

All of the production assets and equipment related to Brazilian operations.

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.

NOTE 11. PROPERTY, FURNITURE, FIXTURES AND EQUIPMENT

2010

USD 000	Property	Furniture, Fixture and Fittings	Computer Equipment	Total
Acquisition cost				
At January 1, 2010	1,788	959	739	3,486
Additions	-	251	40	291
Acquisitions	-	142	156	298
Disposals	(1,788)	(184)	-	(1,972)
Foreign currency translation	-	63	39	102
At December 31, 2010	-	1,231	974	2,205
Accumulated depreciation				
At January 1, 2010	241	126	376	743
Disposal	(241)	-	-	(241)
Depreciation	-	144	193	337
Foreign currency translation		22	15	37
At December 31, 2010	-	292	584	876
Net carrying value at December 31, 2010	**-**	**939**	**390**	**1,329**

2009

USD 000	Property	Furniture, Fixture and Fittings	Computer Equipment	Total
Acquisition cost				
At January 1, 2009	1,276	696	496	2,468
Additions	-	-	-	-
Disposals	-	-	-	-
Foreign currency translation	512	263	243	1,018
At December 31, 2009	1,788	959	739	3,486
Accumulated depreciation				
At January 1, 2009	77	6	168	239
Depreciation	108	108	191	407
Foreign currency translation	56	24	17	97
At December 31, 2009	241	126	376	743
Net carrying value at December 31, 2009	**1,547**	**833**	**363**	**2,743**

Depreciation method and rates

Category	Straight-line depreciation	Useful life
Furniture, fixtures and fittings	10-33.33 %	3- 10 years
Computer equipment	20-33.33 %	3 - 5 years

NOTE 12. ACCOUNTS AND OTHER RECEIVABLES

USD 000	2010	2009
Accounts receivable	12,290	5,788
Other receivables and prepayments	10,448	9,076
Total	**22,738**	**14,864**

Accounts receivables are non-interest bearing and generally on 30-120 days payment terms.

At December 31, 2010 and 2009 the allowance for impairment of receivables was USD nil.

NOTE 13. CASH AND BANK BALANCES

USD 000	2010	2009
Cash and bank balances	61,713	13,105
Less: Restricted cash	(1,444)	(3,682)
Cash and cash equivalents at the end of the period	**60,269**	**9,423**

Restricted cash
Restricted cash of USD 1.4 million as at December 31, 2010 relates to cash held in debt service reserve account in accordance with the requirement of the senior secured callable bond agreement.

As at December 31, 2009, USD 3.7 million was restricted for installments of debts to Brazilian lenders.

Overdraft facilities
The group had no bank overdraft facilities as at December 31, 2010.

As at December 31, 2009 NEdB had a BRL denominated bank overdraft facility of USD 1.7 million with USD 1.6 million drawn down.

NOTE 14. SHARE CAPITAL AND RESERVES

Share capital

Amounts in USD 000 unless otrherwise stated	Number of shares	Nominal Share Capital
January 1, 2010	1,000	17
Reduction of share capital on demerger	(1,000)	(17)
Issue of shares	163,947,081	38,141
December 31, 2010	**163,947,081**	**38,141**

During 2009, the parent company Panoro Energy ASA was incorporated and a total of 100 shares were in issue with a nominal amount of USD 17,000.

The 2009 comparatives on the statement of financial position represent the historical numbers of NEdB pooled with Panoro.

All shares have a par value of NOK 1.460471768 and carry equal voting rights. The Company is incorporated in Norway and the share capital is denominated in NOK. The share capital given above is translated to USD at the foreign exchange rate in effect at the time of each share issue.

The Group has issued 7.5 million warrants in connection with the demerger from NEC. The warrants give the right to equivalent number of new ordinary shares at NOK 15.71 per share. The warrants expire on July 1, 2011.

Reserves
Share premium
Share premium reserve represents excess of subscription value of the shares over the nominal amount. The reserve may be used for future distributions to shareholders and is generally used to offset directly attributable equity issue costs.

Other reserves
Other reserves represent items arising on consolidation of NEdB as comparatives and execution of merger.

Additional paid-in capital
Additional paid-in capital represent reserves created under the continuity principle on demerger.

Currency translation reserve
The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

NOTE 15. INTEREST-BEARING DEBT

USD 000	Note	2010	2010	2009	2009
		Current	Non-current	Current	Non-current
Norway	15.1				
NOK denominated loans		459	34,268	-	-
USD denominated loans		1,155	102,097	-	-
Brazil	15.2				
USD denominated loans		-	-	21,138	-
BRL denominated loans		-	-	59,671	-
Payable to NEC	15.3	-	-	57,699	-
Total		**1,614**	**136,365**	**138,508**	**-**

NOTE 15.1 SENIOR SECURED CALLABLE BOND

In November 2010 the Company issued bonds of USD 140 million «Panoro Energy Senior Secured Callable Bond Issue 2010/2018». The bond proceeds have primarily been used to refinance the NEC 01 bond of NOK 243.53 million and Brazilian BNDES and treasury loans. The residual amount after refinancing is to be used for general corporate purposes.

The bond issue is denominated in NOK and USD with tranches of NOK 205 million and USD 105 million carrying fixed interest rates of respectively 13.5% and 12% per annum. Interest is payable semi-annually with first payment falling due on May 15, 2011. The first principal repayment is due on November 15, 2012 of NOK 20.5 million and USD 10.5 million and the same amounts are repayable every year on November 15 to the year 2017. The remaining principal amounts of NOK 82 million and USD 42 million are repayable at the bond redemption date on November 15, 2018.

The bondholders carry a first priority pledge over Company's shares in Brazilian subsidiaries (Rio das Contas, Coplex and NEdB) which effectively hold 10% working interest in Manati gas field. In addition to this, the bond agreement also stipulates issue of unconditional and irrevocable on-demand guarantees in favour of the Bond Trustee by the Brazilian subsidiaries.

The main covenants of the bond loan are as follows:

- The issuer shall maintain at all times, a Book Equity ratio of the Group of minimum 25% which needs to be measured at every quarter end date. The Book Equity ratio measures the proportion of the Group's equity compared to total assets.
- The issuer shall not declare or make any dividend payments or other distributions or loans to its shareholders and should not engage in any activity having the effect of reducing capital or equity in the parent company.
- The Company shall not provide loans to any of its Brazilian subsidiaries, except to the extent such loans are subject to a first priority pledge to secure the obligations of the bond issuer.
- The Company shall not provide guarantees or other credit support to, or make investments in, any person or entity outside the Group, other than in the conditions as prescribed in the loan agreement.

The amount above includes accrued interest to December 31, 2010 and is net of unamortized bond issue costs of USD 4,490,000.

NOTE 15.2 BRAZILIAN LOANS

These loans were repaid during the year with proceeds from the callable bond in 15.1 above.

NOTE 15.3 PAYABLE TO NEC

This balance represented an intercompany loan payable to the previous parent company NEC which was transferred to Panoro Energy ASA on demerger. The loan was eliminated on demerger and replaced with NEC 01 bond which was repaid during the year with proceeds from the callable bond in 15.1 above.

NOTE 16. OTHER NON-CURRENT LIABILITIES

USD 000	2010	2009
At December 31,	8,278	8,263

Included in the above balance, the Group has recorded acquisition related liabilities related to various acquisitions that occurred in 2005, 2006 and 2010. These liabilities are dependent upon certain operational milestones being achieved and consist of USD 3.3 million related to Estrela do Mar and Cavalo Marinho (2009:USD 2.8 million) and USD 3.4 million related to MKB permit (2009 : Nil). The 2009 figure includes a liability of USD 4 million relating to the Sardinha license which was relinquished in the year, and therefore released. These liabilities will be settled either in cash or through issue of the Company's shares subject to the requirements of the respective acquisition agreements. All related milestones are expected to be met after more than one year from the date of the statement of financial position.

The non-current liabilities also included USD 1.5 million (2009: USD 1.5 million) for social security taxes which are expected to be payable after more than one year.

NOTE 17. ASSET RETIREMENT OBLIGATION

In accordance with the agreements and legislation, the wellheads, production assets, pipelines and other installations 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 amounts of the obligations associated with the retirement of oil and natural gas properties:

USD 000	2010	2009
At January 1	12,665	4,423
Changes in estimated obligations	-	8,242
At December 31	**12,665**	**12,665**

All of the obligations are expected to be fulfilled after more than one year from the date of the statement of financial position.

For the year ended December 31, 2010, included in the asset retirement obligation is USD 12.7 million (2009: USD 12.7 million) for Brazil and is based on an appraisal report prepared by the operator of Manati Field's engineers to Agencia Nacional de Petroleo (Petroleum National Agency, «ANP»).

NOTE 18. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

USD 000	2010	2009
Accounts payables	13,179	20,018
Accruals and other liabilities	15,137	13,809
Total	**28,316**	**33,827**

NOTE 19. OTHER FINANCIAL LIABILITIES

Warrants

Under the demerger agreement Panoro agreed to issue 7,500,000 warrants to the existing holders of the NEC-J warrant instrument in NEC. The liability related to these warrants is USD 1.2 million, which is the fair value as at December 31, 2010. One warrant gives a conversion right to one share in the Company during the exercise period at NOK 15.71.

The warrant market price as at December 31, 2010 was NOK 0.93 and the warrants expire on July 1, 2011.

NOTE 20. SHARE-BASED PAYMENT PLANS

Share Option Plan

Following the merger in June 2010, the Company established an option plan (the «Panoro Option Plan») whereby options were granted to the key management and employees on August 17 and September 2, 2010.

The Panoro Option Plan governs all future grants of options by the Company to Directors, officers, key employees and certain consultants of the Group. Options are granted under the Panoro Options Plan at the discretion of the Board of Directors.

During the year, the Board of Directors approved a grant of 7,000,000 share options to the management and the employees under the Panoro Share options plan. Vesting of these options will be over a three year period, with 1/3 of the options exercisable each year. The exercise price of the options has been set at NOK 6.0, which is to be increased by 8 percent after year two and additional 8 percent annually thereafter. The exercise price for the options is based on the volume-weighted average share price from listing until August 17, 2010.

2,333,333 options have a vesting period until August 17, 2011 and can be exercised until August 17, 2012 at NOK 6.0 or until August 17, 2013 at NOK 6.48;

2,333,333 options have a vesting period until August 17, 2012 and can be exercised until August 17, 2013 at NOK 6.48 or until August 17, 2014 at NOK 7.0; and

2,333,334 options have a vesting period until August 17, 2013 and can be exercised until August 17, 2014 at NOK 7.0 or until Aug 17, 2015 at NOK 7.56.

Of the 7,000,000 options, allocations and awards were made to the employees of 6,770,000 options. Due to departing employees 950,000 options have been terminated during the year and as a result, 5,820,000 options were outstanding as of the year end.

Of the 5,820,000 outstanding options, 2,625,000 options have been allocated to key employees and the Chairman of the Board of Directors. The remaining 3,195,000 options represent grants to other employees of the Company under the same conditions. The remaining options under the authorization have not yet been allocated or distributed.

Options will be considered as vested if an employee stays in employment of the Company or its subsidiaries over the full length of the individual vesting period of each tranche granted. Should any of the Group companies or an employee decide to terminate their employment prior to the start of exercise period, the options shall expire without any further compensation. None of the outstanding options were vested at December 31, 2010. All options under the plan will be settled in shares.

The Company calculates the value of share-based compensation using a Black-Scholes option pricing model to estimate the fair value of share options at the date of grant. The estimated fair value of options is amortized to expense over the options' vesting period. USD 565 thousand has been charged to the statement of comprehensive income since grant dates during 2010 (2009: USD Nil) and the same amount credited to retained earnings.

The assumptions made for the options include a weighted average risk-free interest rate between 2.30% and 2.46% depending on the length of the option, no dividend yield, a weighted average expected life of options of 2 years, 3 years and 4 years respectively for option tranches vesting in 2012, 2013 and 2014; and a volatility range between 75.27% and 89.22%. The weighted average remaining contractual life of the options is 3.63 years. As of December 31, 2010, options were outstanding for 36 employees including the Chairman and key management personnel.

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the period:

	Number of options	WAEP – NOK	Exercise value – NOK 000
Granted during period:			
August 17, 2010	3,125,000	6.49	20,281
September 2, 2010	3,645,000	6.49	23,656
Options terminated	(950,000)		(6,166)
Outstanding at December 31, 2010	**5,820,000**	**6.49**	**37,771**

The weighted average fair value of options granted during the period was NOK 2.57 per option based on 6,770,000 options granted.

The distribution of outstanding options amongst the employees and Chairman is as follows:

Name	Number of options	Exercise price in NOK	Exercise period	Fair value expensed – USD 000
Phil Vingoe	375,000	6.00 – 7.56	August 17, 2011 – August 17, 2015	41
Kjetil Solbrække	750,000	6.00 – 7.56	August 17, 2011 – August 17, 2015	81
Anders Kapstad	500,000	6.00 – 7.56	August 17, 2011 – August 17, 2015	54
Thor Tangen	500,000	6.00 – 7.56	August 17, 2011 – August 17, 2015	54
Nishant Dighe	500,000	6.00 – 7.56	August 17, 2011 – August 17, 2015	54
Other employees	3,195,000	6.00 – 7.56	August 17, 2011 – August 17, 2015	281
Total	**5,820,000**			**565**

NOTE 21. FINANCIAL INSTRUMENTS

Fair Value

Set out below is a comparison by category of carrying amounts and fair values of all the Group's financial instruments that are carried in the financial statements:

		Carrying amount		Fair value	
USD 000	**Financial instrument classification**	**2010**	**2009**	**2010**	**2009**
Financial assets					
Cash and bank balances	Held for trading	61,713	13,105	61,713	13,105
Accounts receivable	Loans and receivables	12,290	5,788	12,290	5,788
Financial liabilities					
Accounts payable and accrued liabilities	Loans and receivables	28,812	33,827	28,812	33,827
Interest-bearing loans and borrowings	Loans and receivables	138,249	80,809	140,886	80,809
Other loans		-	57,699	-	57,699
Liabilities related to warrants	Fair value through the P&L	1,199	-	1,199	-

Fair value hierarchy

Liabilities relating to warrants are classified as level 1.

Liabilities related to warrants

As part of the demerger from NEC, 7.5 million warrants were issued by the Company on June 15, 2010 to holders of NEC-J warrants. One warrant gives a conversion right to one share in the Company during the exercise period which is valid up to July 1, 2011. The warrants are listed on OSE as «PEN-J» and are exerciseable at NOK 15.71.

Determination of fair value

The fair value of interest bearing loans and borrowings is determined by reference to the recent trades of the bond instrument in the secondary market.

The warrants are measured at fair value with reference to the quoted price of the warrants. For a further description of accounting treatment of the warrants, refer to note 2, Summary of significant accounting policies.

The carrying amount of cash and bank balances is approximately equal to fair value since these instruments have a short term to maturity. Similarly, the carrying amount of accounts receivables and accounts payables is approximately equal to fair value since they are entered into on «normal» terms and conditions.

NOTE 22. FINANCIAL RISK MANAGEMENT

The Group's principal financial liabilities comprise accounts payable and bond loans. The main purpose of these financial instruments is to manage short-term cash flow and raise finance for the group's capital expenditure program. The group has various financial assets such as accounts receivable and cash which arise directly from its operations.

It is, and has been throughout the year ending December 31, 2010 and December 31, 2009, the Group's policy that no speculative trading in derivatives shall be undertaken.

The main risks that could adversely affect the Group's financial assets, liabilities or future cash flows are interest rate risk, foreign currency risk, liquidity risk and credit risk. The management reviews and agrees policies for managing each of these risks which are summarized below.

The following discussion also includes a sensitivity analysis that is intended to illustrate the sensitivity to changes in the market variables on the Group's financial instruments and show the impact on profit or loss and shareholders equity, where applicable. Financial instruments affected by market risk include bank loans, accounts receivables, accounts payable and accrued liabilities.

The sensitivity has been prepared for periods ending December 31, 2010 and 2009 using the amounts of debt and other financial assets and liabilities held as at those reporting dates.

Commodity price risk
The Group at present is not exposed to the risk of fluctuations in prevailing market commodity prices on the gas production in Brazil due to fixed price contracts.

The Group's policy is to manage commodity price risk through a mix of fixed and floating price contracts.

Interest rate risk
The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's cash balances. All long term borrowings as of December 31, 2010 have fixed interest rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax through the impact on floating rate borrowings and cash and cash equivalents.

USD 000	2010		2009	
	+100bps	-100bps	+100bps	-100bps
Cash	21	(21)	40	(40)
Floating interest loans	-	-	(703)	703
Net effect	**21**	**(21)**	**(663)**	**663**

Foreign currency risk
The Company operates internationally and is exposed to risk arising from various currency exposures, primarily with respect to the Norwegian Kroner (NOK), the Pound Sterling (GBP) and the Brazilian Real (BRL).

The Group has transactional currency exposures. Such exposure arises from sales or purchases in currencies other than the respective functional currency.

The Group reports its consolidated results in USD, any change in exchange rates between its operating subsidiaries' functional currencies and the USD affects its consolidated income statement and balance sheet when the results of those operating subsidiaries are translated into USD for reporting purposes.

Group companies are required to manage their foreign exchange risk against their functional currency.

The Group evaluates on a continuous basis to use cross currency interest rate swaps if deemed appropriate by management in order to hedge the forward foreign currency risk associated with its foreign currency denominated bond loans.

A 20% strengthening or weakening of the USD against the following currencies at December 31, 2010 would have increased/(decreased) equity and profit or loss by the amounts shown below. The Group's assessment of what a reasonable potential change in foreign currencies that it 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.

USD vs NOK	2010	
USD 000	**+ 20%**	**-20%**
Cash	(617)	617
Loans	6,945	(6,945)
Receivables	(35)	35
Payables	217	(217)
Net effect	**6,510**	**(6,510)**

USD vs GBP		
USD 000	+ 20%	-20%
Cash	(127)	127
Receivables	(129)	129
Payables	106	(106)
Net effect	**(150)**	**150**

USD vs BRL		
USD 000	**+ 20%**	**-20%**
Cash	(1,535)	1,535
Receivables	(1,855)	1,855
Payables	2,876	(2,876)
Net effect	**(514)**	**514**

USD vs BRL	2009	
USD 000	**+ 20%**	**-20%**
Cash	(2,184)	2,184
Receivables	(2,477)	2,477
Payables	5,638	(5,638)
Loans	9,958	(9,958)
Net effect	**10,935**	**(10,935)**

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, and the ability to close out market positions.

Due to the dynamic nature of our underlying business, parent company management maintains its funding flexibility under available bank credit lines, the bond market and the equity market.

The table below summarizes the maturity profit of the Group's financial liabilities at December 31, 2010 based on contractual undiscounted payments.

USD 000	On demand	Less than 1 year	1 to 2 years	2 to 5 years	>5 years	2010 Total
Interest bearing loans and borrowings	-	17,600	31,673	84,315	110,580	244,168
Accounts payable and accrued liabilities	-	28,316	-	-	-	28,316
	-	46,412	31,673	84,315	110,580	272,980

USD 000	On demand	Less than 1 year	1 to 2 years	2 to 5 years	>5 years	2009 Total
Interest bearing loans and borrowings	-	138,508	-	-	-	138,508
Accounts payable and accrued liabilities	-	33,827	-	-	-	33,827
	-	**172,335**	**-**	**-**	**-**	**172,335**

Credit risk
The Group is exposed to credit risk that 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 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 Group CFO.

If the Group's 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.

Most of the credit risk is associated with the sole buyer of gas (Petrobras), where management considers the risk of default to be low.

			Past due but not impaired				
USD 000	**Total**	**Neither past due nor impaired**	**< 30 days**	**30-60 days**	**60-90 days**	**90-120 days**	**>120 days**
2010	12,290	11,470	156	163	353	148	-
2009	5,788	5,788	-	-	-	-	-

Capital Management
The objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratio in order to support its business and increase shareholder value.

The group manages cash and bond loans as capital and regularly reviews its net debt position to manage capital requirements.

As part of the bond agreements the Group is required to maintain an equity ratio of 25%. Management regularly monitor equity ratio to ensure covenant compliance.

USD 000	2010
Non-current debt	(136,365)
Current debt	(1,614)
Cash	61,713
Net debt	**(76,266)**
Book Equity Ratio (Assets to Equity ratio)	53%

NOTE 23. GUARANTEES AND PLEDGES

Brazil

The bondholders carry a first priority pledge over Company's shares in Brazilian subsidiaries (Rio das Contas, Coplex and NEdB) which effectively hold 10% working interest in Manati gas field. In addition to this, the bond agreement also stipulates issue of unconditional and irrevocable on-demand guarantees in favour of the Bond Trustee by the Brazilian subsidiaries.

NOTE 24. OTHER COMMITMENTS AND CONTINGENT LIABILITIES

Gabon

The Group has a well commitment on Dussafu license area in Gabon which is expected to be in the region of USD 8 million on a dry well basis. The costs related to this well will be financed through the use of available cash holdings.

Leasing arrangements

Operating leases relate to leases of office space and apartments with lease terms of between 1 to 10 years.

Non- cancellable operating lease commitments

USD 000	2010	2009
Not later than 1 year	1,129	312
Later than 1 year and not later than 5 years	2,868	1,380
Later than 5 years	757	190
Total	**4,754**	**1,882**

NOTE 25. RELATED PARTIES TRANSACTIONS

The only related party transactions during the year relate to directors' remuneration which is disclosed in note 5.

NOTE 26. SUBSIDIARIES

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

Subsidiary	Place of incorporation and ownership	Ownership interest and voting power
Norse Energy do Brasil S.A*	Brazil	100%
Pan-Petroleum Holdings (Cyprus) Limited	Cyprus	100%
Coplex Petroleo do Brasil Ltda	Brazil	100%
Rio das Contas Produtora de Petroleo Ltda	Brazil	100%
Pan-Petroleum Holding B.V.	Netherlands	100%
Coralshell Limited	Cyprus	100%
Prevail Energy Congo Limited	British Virgin Islands	100%
Panoro Energy Limited	UK	100%
African Energy Equity Resources Limited	UK	100%
Pan-Petroleum Nigeria Holding B.V.	Netherlands	100%
Pan-Petroleum Aje Limited	Nigeria	100%
Pan-Petroleum Services Holding B.V.	Netherlands	100%
Pan-Petroleum Gabon Holding B.V.	Netherlands	100%
PPN Services Limited	Nigeria	100%
Pan-Petroleum Gabon B.V.	Netherlands	100%
Pan-Petroleum Gabon Holdings B.V.	Netherlands	100%
Pan-Petroleum Gryphon Marin B.V.	Netherlands	100%
Prevail Energy (Congo) MKB Limited	British Virgin Islands	100%
Prevail Energy Congo SAU	Congo	100%
Energy Equity Resources Oil and Gas Limited	Nigeria	100%
Energy Equity Resources AJE Limited	Nigeria	100%
Energy Equity Resources (Cayman Islands) Limited	Cayman	100%
Energy Equity Resources (Nominees) Limited	Cayman	100%
Syntroleum Nigeria Limited	Nigeria	100%

* Effective March 15, 2011 the name of Norse Energy do Brasil S.A. has changed to Panoro Energy do Brasil Ltda.

At December 31, 2009, NEdB and subsidiaries formed part of the NEC group. All other subsidiaries formed part of the Pan-Petroleum Group.

NOTE 27. NON- CASH TRANSACTIONS

During 2010, USD 260.5 million of share capital and share premium was issued as consideration for certain assets and liabilities acquired by the Group.

NOTE 28. SUBSEQUENT EVENTS

Farm down on Round 9 Licenses

On January 24, 2011 the Company reached agreement with Vanco Brasil Exploração e Produção de Petróleo e Gas Natural Ltda, a wholly owned Subsidiary of Vanco Overseas Energy Ltd («Vanco») to farm out 35% of Panoro's 50% interest in its three shallow water exploration licenses SM-1035, SM-1036 and SM-1100 in the Santos Basin offshore Brazil. After this transaction, Panoro will retain 15% interest in these blocks. Under the same terms, Panoro's partner in the blocks; Brasoil have also farmed out their 50% interest down to 15% to Vanco.

Vanco will assume Operatorship and hold a 70% working interest in the three licenses. Upon ANP approval, Panoro will receive net proceeds of approximately USD 15 million, covering Panoro's historical costs on the licenses. Vanco will finance Panoro's share of drilling costs for three exploration wells, one on each license. Furthermore, Vanco will be entitled to recover the financed portion of successful wells and half the financed portion of unsuccessful wells from Panoro's share of future production from discoveries made on the licenses.

The transaction includes an option for Panoro to increase their working interest in the licenses to 20%, prior to commencement of drilling the first exploration well. In this event, Panoro will be required to fund 5% of the past costs, work program costs and future drilling costs of the three wells.

NOK 550 Million Equity Issue
In March 2010, the Company raised gross NOK 550 million (~USD 95 million) in new equity in a private placement, directed at Norwegian and international institutional investors. The share issue was oversubscribed at the top end of the range and the price in the book-building was set at NOK 7.80 per share. 70,500,000 shares were issued following the approval of the private placement in Extraordinary General Meeting («EGM»).

On February 16, 2011 the Company increased the share capital by 10% through issue of 16,394,708 shares of NOK 1.460471768 each. This increase is within the 10% proxy approved by the EGM in 2010.

On March 22, 2011 the Company raised gross NOK 0.77 million through a subsequent offering directed towards PEN shareholder and warrant holders who were not allocated shares in the private placement. As a result of the offering the Company has issued 98,705 shares at a subscriptions price of NOK 7.89 per share. This offering was also approved in the EGM held on March 1, 2011.

NOTE 29. RESERVES (UNAUDITED)

The Group has adopted a policy of regional Reserve Reporting using external third party companies to audit its work and certify reserves and resources according to the guidelines established by the Oslo Stock Exchange («OSE»). 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. Panoro uses the services of Gaffney, Cline & Associates («GCA») for 3rd party verifications of its reserves.

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

Asset	1P reserves (MMBOE)	2P reserves (MMBOE)
Manati	12.1	14.4
Cavalo Marinho	5.7	14.2
Estrela do Mar	0.0	5.7
Kundji pilot	0.6	0.8
Panoro total	**18.4**	**35.1**

During 2010, the Group had the following reserve development:

	2P reserves (MMBOE)
Balance (previous ASR) as of December 31, 2009	39.9
Production 2010	(1.4)
Acquisitions/(disposals) since previous ASR	(4.2)
New developments since previous ASR	0.8
Revisions of previous estimates	0.0
Balance (current ASR) as of December 31, 2010	**35.1**

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 Reserves.

PANORO ENERGY ASA
PARENT COMPANY INCOME STATEMENT

For the year ended December 31, 2010

USD 000	Notes	2010	2009
Operating income			
Operating revenues		22	-
Total operating income		**22**	**-**
Operating expenses			
General and administrative expense	2	(4,166)	-
Merger and restructuring costs	2	(6,256)	-
Depreciation	5	(86)	-
Total operating expenses		**(10,508)**	**-**
Operating result	**2**	**(10,486)**	**-**
Financial income	3	6,290	-
Financial expense	3	(9,148)	-
Currency loss		(3,218)	-
Fair value movements on warrants	11	(1,154)	-
Result before income taxes		**(17,716)**	**-**
Income tax	4	-	-
Result for the year		**(17,716)**	**-**

The annexed notes form an integral part of these financial statements.

PANORO ENERGY ASA
PARENT COMPANY BALANCE SHEET

As at December 31, 2010

USD 000	Note	2010	2009
ASSETS			
Non-current assets			
Furniture, fixtures and office equipment	5	140	-
Investment in subsidiaries	6	327,537	-
Intercompany receivables	7	2,913	-
Loans to subsidiaries	7	15,868	-
Other non-current assets		13	-
Total non-current assets		**346,471**	**-**
Current assets			
Loans to subsidiaries	7	70,117	-
Other current assets		210	-
Cash and cash equivalent		20,286	173
Restricted cash	8	1,447	-
Total current assets		**92,060**	**173**
TOTAL ASSETS		**438,531**	**173**
EQUITY AND LIABILITIES			
EQUITY			
Paid-in capital			
Share capital	9	38,141	17
Share premium	9	213,983	156
Additional paid-in capital		63,080	-
Total paid-in capital		**315,204**	**173**
Other equity			
Other reserves	9	(17,151)	-
Total other equity		**(17,151)**	**-**
TOTAL EQUITY		**298,053**	**173**
LIABILITIES			
Non-current liabilities			
Bond loan	10	136,365	-
Total current liabilities		**136,365**	**-**
Current liabilities			
Accounts payable		253	-
Bond loan	10	1,614	-
Warrants liability	11	1,199	-
Other current liabilities	12	1,047	-
Total current liabilities		**4,113**	**-**
TOTAL LIABILITIES		**140,478**	**-**
TOTAL EQUITY AND LIABILITIES		**438,531**	**173**

The annexed notes form an integral part of these financial statements.

PANORO ENERGY ASA
PARENT COMPANY STATEMENT OF CASH FLOW

For the year ended December 31, 2010

USD 000	Note	2010	2009
CASH FLOW FROM OPERATING ACTIVITIES			
Net result for the year		(17,716)	-
Adjusted for:			
Depreciation	5	86	-
Fair value movements on warrants	11	1,154	-
Share based payments	2	197	-
Financial income	3	(6,290)	-
Financial expenses	3	9,148	-
Foreign exchange gains/losses		2,085	-
(Increase)/decrease in trade and other receivables		2,330	-
Increase/(decrease) in trade and other payables		1,299	-
Taxes paid		-	-
Net cash flows from operating activities		**(7,707)**	**-**
CASH FLOWS FROM INVESTING ACTIVITIES			
Investments in subsidiaries		(83,000)	-
Property, plant and equipment additions	5	(146)	-
Increase in loans to subsidiaries		(24,846)	-
Net cash flows from investing activities		**(107,992)**	**-**
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from issuance of long-term debt		134,280	-
Reduction of share capital		(173)	-
Repayment of borrowing		(46,085)	-
Net proceeds from issuance of shares		54,753	173
Interests paid		(7,534)	-
Interests received		516	-
Net cash flows from financing activities		**135,757**	**173**
Effect of foreign currency translation adjustment on cash balances		55	-
Net increase in cash and cash equivalents		**20,113**	**173**
Cash and cash equivalents at the beginning of the year		173	-
Cash and cash equivalents at the end of financial year		**20,286**	**173**

The annexed notes form an integral part of these financial statements.

NOTE 1. ACCOUNTING PRINCIPLES

Panoro Energy ASA was formed to effect a business combination between two existing entities, Norse Energy do Brasil («NEdB»), a former subsidiary of Norse Energy Corporation («NEC») and Pan-Petroleum Holdings (Cyprus) Limited («PPHCL»). The acquisition by the Company of PPHCL and NEdB were both settled by the issuance of ordinary shares in Panoro Energy ASA in exchange for shares in PPHCL and NEdB. The transaction was effected in a two stage process.

On June 7, 2010, the demerger from NEC was completed, whereby voting shares in a portfolio of the Brazilian assets (NEdB) were split from the NEC group and acquired by the Company. Ordinary shareholders in NEC at the time of demerger were issued one share in the Company (Panoro or «PEN») for every ten ordinary shares held in NEC.

The annual accounts for the parent company Panoro Energy ASA (the «Company») are prepared in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway. The consolidated financial statements have been prepared under International Financial Reporting Standards («IFRS») as adopted by the European Union («EU») and are presented separately from the parent company.

The accounting policies are described in note 2 of the consolidated financial statements. The accounting principles applied under NGAAP are in conformity with IFRS unless otherwise stated in the notes below.

The Company's annual financial statements are presented in US Dollars (USD) and rounded to the nearest thousand, unless otherwise stated. USD is the currency used for accounting purposes and is the functional currency. Shares in subsidiaries and other shares are recorded in Panoro Energy ASA's accounts using the cost method of accounting. Bond loans are booked net of the amortized transaction costs and transaction costs are amortized over the loan period.

NOTE 2. GENERAL AND ADMINISTRATIVE EXPENSES

Operating result
Operating result is stated after (charging)/crediting:

USD 000	2010	2009
Employee benefits expense	(2,087)	-
Depreciation	(86)	-
Operating lease payments	(181)	-
Merger and restructuring costs	(6,256)	-

Salaries
The Company had 5 employees at December 31, 2010 (2009: nil), and an average of 5 employees during the year (2009: nil). Wages and salaries for these employees are included in general and administrative expenses.

The Company has an option program amounting to a total of 7 million options, approved by the Extraordinary General Meeting held during the year. In August and September 2010, 6.7 million of these options were granted to key employees of the group. For further details on this program, see share based payment section.

Employee related expenses:

USD 000	2010	2009
Salaries and wages	1,359	-
Employer's contribution	209	-
Pension costs	111	-
Other compensation	408	-
Total	**2,087**	**-**

For details relating to remuneration of CEO Anders Kapstad, CFO, and Thor Tangen, EVP Field Development, refer to note 5 in the consolidated financial statements.

Directors' remuneration

Please refer to note 5 of the Group financial statements for details on how directors' remuneration is determined.
Remuneration to members of the Board of Directors is summerised below:

USD 000	2010	2009
Phil Vingoe	52	-
Tord Pedersen	35	-
Katherine Støvring	46	-
Christine Wheeler	35	-
Ragnar Søegaard	46	-
Total	**214**	**-**

No pension benefits were received by the directors during 2010.

There was no remuneration paid by the Company to the Directors in 2009.

There are no severance payment arrangements in place for directors.

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 contributes to an external defined contribution scheme and therefore no pension liability is recognized in the balance sheet.

Auditor

Fees (excluding VAT) to the Company's auditors are included in general and administrative expenses and are shown below. The other fees related to advisory services provided in respect of the demerger and merger during the year.

USD 000	2010	2009
Ernst & Young		
Statutory audit	65	-
Tax services	2	-
Merger and demerger services	46	
Other	20	-
Deloitte		
Statutory audit	1	-
Tax services	-	-
Merger and demerger services	215	-
Total	**349**	**-**

Share based payment

Following the merger in June 2010, the Company established an option plan (the «Panoro Option Plan») whereby options were granted to the key management and employees on August 17 and September 2, 2010.

The Panoro Option Plan governs all future grants of options by the Company to Directors, officers, key employees and certain consultants of the Company. Options are granted under the Panoro Options Plan at the discretion of the Board of Directors.
During the year, the Board of Directors approved a grant of 7,000,000 share options to the management and the employees under the Panoro Options Plan. Vesting of these options will be over a three year period, with 1/3 of the options exercisable each year. The exercise price of the options has been set at NOK 6.0, which is to be increased by 8% after year two and additional 8 % annually thereafter. The exercise price for the options is based on the volume-weighted average share price from listing until August 17, 2010.

2,333,333 options have a vesting period until August 17, 2011 and can be exercised until August 17, 2012 at NOK 6.0 or until August 17, 2013 at NOK 6.48;

2,333,333 options have a vesting period until August 17, 2012 and can be exercised until August 17, 2013 at NOK 6.48 or until August 17, 2014 at NOK 7.0; and

2,333,334 options have a vesting period until August 17, 2013 and can be exercised until August 17, 2014 at NOK 7.0 or until Aug 17, 2015 at NOK 7.56.

Of the 7,000,000 options, allocations and awards were made to the employees of 6,770,000 options across the Company. Due to departing employees, 950,000 options have been terminated during the year and as a result 5,820,000 options were outstanding as of the year end.

Of the 5,820,000 outstanding options, 2,625,000 options have been allocated to key employees and the Chairman of the Board of Directors. The remaining 3,195,000 options represent grants to other employees of the Group under the same conditions. The remaining options under the authorisation have not yet been allocated or distributed.

Options will be considered as vested if an employee stays in employment of the Company or its subsidiaries over the full length of the individual vesting period of each tranche granted. Should any of the Group companies or an employee decide to terminate their employment prior to the start of exercise period, the options shall expire without any further compensation. None of the outstanding options were vested at December 31, 2010. All options under the plan will be settled in shares.

The Company calculates the value of share-based compensation using a Black-Scholes option pricing model to estimate the fair value of share options at the date of grant. The estimated fair value of options is amortised to expense over the options' vesting period. USD 197 thousand has been charged to the income statement since grant dates during 2010 (2009: USD Nil) and the same amount credited to retained earnings. The amount charged pertains to the employees of the Company only and the rest of the Group company charge has been expensed in the respective subsidiaries. Of the total share based payment charge of USD 565 thousand for the Group, USD 368 thousand relates to the Company's direct and indirect subsidiaries and such amount has been recorded as an investment in subsidiaries and the corresponding credit has been taken to the retained earnings.

The assumptions made for the options include a weighted average risk-free interest rate between 2.30% and 2.46% depending on the length of the option, no dividend yield, a weighted average expected life of options of 2 years, 3 years and 4 years respectively for option tranches vesting in 2012, 2013 and 2014; and a volatility range between 75.27% and 89.22%. The weighted average remaining contractual life of the options is 3.63 years. As of December 31, 2010, 1,900,000 options were outstanding in respect of the six Company employees including the Chairman and certain key management personnel.

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the period for the Company:

	Number of options	WAEP NOK	Exercise value NOK 000
Granted during period:			
August 17, 2010	3,125,000	6.49	20,281
September 2, 2010	3,645,000	6.49	23,656
Options terminated	(950,000)		(6,166)
Outstanding at December 31, 2010	**5,820,000**	**6.49**	**37,771**

The weighted average fair value of options granted during the period was NOK 2.57 per option based on 6,770,000 options granted. Of the outstanding options, 1,900,000 options related to the Company and there were no terminations during the year.

The distribution of outstanding options amongst the Company's employees and Chairman is as follows:

Amounts in USD unless otherwise stated	Number of options	Exercise price in NOK	Exercise period	Fair value expensed - USD 000
Phil Vingoe	375,000	6.00 – 7.56	August 17, 2011 – August 17, 2015	41
Anders Kapstad	500,000	6.00 – 7.56	August 17, 2011 – August 17, 2015	54
Thor Tangen	500,000	6.00 – 7.56	August 17, 2011 – August 17, 2015	54
Other employees	525,000	6.00 – 7.56	August 17, 2011 – August 17, 2015	48
Total	**1,900,000**			**197**

NOTE 3. FINANCIAL ITEMS

The financial income breakdown is stated below:

USD 000	2010	2009
Interest income from subsidiaries	5,774	-
Other interest income	516	-
Total	**6,290**	**-**

Interest income from subsidiaries represents interest on the intercompany loans. Refer to Note 7 for further information on these balances.

The financial expense breakdown is below:

USD 000	2010	2009
Interest expense on bond loans	6,528	-
NEC 01 early redemption charge	1,571	-
Amortisation of debt issue costs	1,045	-
Bank and other financial charges	4	-
Total	**9,148**	**-**

Bond loan issue costs amortization and Bond loan interest expense relate to both NEC 01 Bond loan and Panoro Energy Senior Secured Callable Bond Issue 2010/2018. NEC 01 early redemption charge relates to the early repayment of the NEC 01 Bond loan repaid during 2010.

NOTE 4. INCOME TAX

USD 000	2010	2009
Tax payable	-	-
Change in deferred tax	-	-
Income tax expense	**-**	**-**

Specification of the basis for tax payable:

USD 000	2010	2009
Result before income tax	(17,716)	-
Effect of permanent differences	(2,248)	-
Tax losses not utilised	19,964	-
Basis for tax payable	**-**	**-**

Specification of deferred tax:

USD 000	2010	2009
Losses carried forward	80,869	-
Taxable temporary differences	(4,490)	-
Basis for calculating deferred tax asset	76,379	-
Calculated deferred tax asset (28%)	21,386	-
Unrecognised deferred tax asset	(21,386)	-
Deferred tax asset recognised on Balance Sheet	**-**	**-**

The deferred tax asset is not recognized on the balance sheet due to uncertainty of income.

On demerger from Norse Energy Corporation in June 2010, attributable tax loss of NOK 351 million equivalent of approximately USD 60.3 million was assigned to the Company. In addition to this, tax loss for the year amounted to USD 20.6 million. The cumulative loss of USD 80.9 million will be available indefinitely to offset future taxable profit of the Company.

NOTE 5. FURNITURE, FIXTURES AND OFFICE EQUIPMENT

USD 000	Permanent building fixtures and fittings	Furniture and fixtures	IT and office equipment	Total
Acquisition cost at January 1, 2010	-	-	-	-
Additions	58	60	108	226
Acquisition cost at December 31, 2010	58	60	108	226
Accumulated depreciation at December 31, 2010	(6)	(6)	(74)	(86)
Net carrying value at December 31, 2010	**52**	**54**	**34**	**140**
Depreciation for the year	6	6	74	86

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

NOTE 6. INVESTMENT IN SUBSIDIARIES

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

USD 000	Headquarters	Ownership interest and voting rights	Carrying value
Norse Energy do Brasil	Rio de Janeiro, Brazil	100%	198,431
Pan-Petroleum Holdings (Cyprus) Ltd	Limassol, Cyprus	100%	129,106
Total investments in subsidiaries			**327,537**

NOTE 7. RELATED PARTY TRANSACTIONS AND BALANCES

Operating revenues relate to administrative services provided to subsidiaries.

The Company's loans to the Brazilian subsidiaries Coplex, Rio das Contas and Norse Energy do Brasil are classified as current and amount to USD 70.1 million (NOK 500 million) as of December 31, 2010 (2009: nil). These loans carry an interest rate of 10% and mature on December 31, 2011.

The Company's loan to the Cypriot subsidiary Pan-Petroleum (Holding) Cyprus Limited was classified as non- current and amounted to USD 15.9 million as at December 31, 2010 (2009: nil). This loan carries an interest rate of 10% and matures on June 30, 2012.

The intercompany recharges due from subsidiaries to the Company are classified as non-current and amounted to USD 2.9 million as at December 31, 2010 (2009: nil). These balances do not carry an interest rate and have no maturity date.

See Note 2 for details regarding directors' remuneration.

NOTE 8. RESTRICTED CASH

As of December 31, 2010, USD 1.4 million (2009: nil) is restricted cash in relation to contributions in the debt service accounts as per the requirements of the Senior Secured Callable bond.

NOTE 9. SHAREHOLDERS' EQUITY AND SHAREHOLDER INFORMATION

Nominal share capital in the Company at December 31, 2010 amounted to NOK 239,440,083 (USD 38,141,000) consisting of 163,947,081 shares at a par value of NOK 1.460471768.

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

USD 000	**Share capital**	**Share premium reserve**	**Additional paid-in capital**	**Other equity**	**Total**
Equity at January 1, 2009	-	-	-	-	-
Issue of shares	17	156	-	-	173
Loss for the year	-	-	-	-	-
Equity at December 31, 2009	**17**	**156**	**-**	**-**	**173**
Loss for the year	-	-	-	(17,716)	(17,716)
Share based payments	-	-	-	565	565
Reduction of share capital	(17)	(156)	-	-	(173)
Issue of shares on demerger and merger	31,372	165,999	63,080	-	260,451
Issue of shares for cash (net of costs)	6,769	47,984	-	-	54,753
Equity at December 31, 2010	**38,141**	**213,983**	**63,080**	**(17,151)**	**298,053**

Ownership structure

The Company had 4,762 shareholders at December 31, 2010 (2009:1).

The twenty largest shareholders at year-end were:

	Shareholder	Number of shares	Holding in %
1	Goldman Sachs Int. - Equity -	58,879,514	35.9%
2	UBS AG, London Branch	48,014,631	29.3%
3	Goldman Sachs & Co - Equity	3,072,732	1.9%
4	Morgan Stanley & Co Internat. Plc	1,573,474	1.0%
5	Philip Arthur Vingoe	1,339,669	0.8%
6	Nishant Surendra Dighe	1,259,669	0.8%
7	Varma Mutual Pension Insurance	1,238,690	0.8%
8	KLP Aksje Norge VPF	1,151,433	0.7%
9	DnB NOR SMB	1,125,000	0.7%
10	Bank of New York Mellon SA/NV	1,006,882	0.6%
11	JPMorgan Chase Bank	930,000	0.6%
12	DWPBank AG	922,871	0.6%
13	Arctic Securities ASA	768,763	0.5%
14	Westcap A/S	747,020	0.5%
15	BNP Paribas Secs Services Paris	700,000	0.4%
16	Banque Cantonale Vaudoise	650,000	0.4%
17	Clearstream Banking S.A.	621,272	0.4%
18	Nordnet Bank AB	532,181	0.3%
19	CSPN Holding AS	530,000	0.3%
20	Per Asgeir Bodin	512,100	0.3%
	Top 20 shareholders	**125,575,901**	**76.6%**
	Other shareholders	38,371,180	23.4%
	Total shares	**163,947,081**	**100.0%**

Shares owned by the CEO and Board members, directly and indirectly, at December 31, 2010:

Shareholder	Position	Number of shares	% of total
Dr Phil A. Vingoe	Chairman, Panoro Energy ASA	1,339,669	0.82%
Ragnar Søegaard	Director, Panoro Energy ASA	53,000	0.03%
Tord Pedersen	Director, Panoro Energy ASA	47,597	0.03%
Kjetil Solbrække	CEO, Panoro Energy ASA	376,823	0.23%

Shareholder distribution per 31 December 2010:

Amount of shares	# of shareholders	% of total	# of shares	Holding in %
1 - 1000	2,573	54.03%	1,036,284	0.63%
1 001 - 5 000	1,258	26.42%	3,191,870	1.95%
5 001 - 10 000	328	6.89%	2,533,269	1.55%
10 001 - 100 000	507	10.65%	15,035,722	9.17%
100 001 - 1 000 000	86	1.81%	23,488,242	14.33%
1 000 001 +	10	0.21%	118,661,694	72.38%
Total	**4,762**	**100.00%**	**163,947,081**	**100.00%**

NOTE 10. BOND LOANS

In November 2010 the Company issued bonds of USD 140 million Panoro Energy Senior Secured Callable Bond Issue 2010/2018 («Senior Secured Callable Bond»). The bond proceeds have primarily been used to refinance loans acquired as part of the demerger from NEC, primarily the NEC01 bond, Brazilian BNDES and treasury loans. The residual amount after refinancing is to be used for general corporate purposes.

The bond issue is denominated in NOK and USD with tranches of NOK 205 million (USD 35 million) and USD 105 million carrying fixed interest rates of respectively 13.5% and 12% per annum. Interest is payable semi-annually with first payment falling due on May 15, 2011. The first principal repayment is due on November 15, 2012 of NOK 20.5 million (USD 3.5 million) and USD 10.5 million and the same amounts are repayable every year on November 15 to the year 2017. The remaining principal amounts of NOK 82 million (USD 14 million) and USD 42 million are repayable at the bond redemption date on November 15, 2018.

The bondholders carry a first priority pledge over Company's shares in Brazilian subsidiaries (Rio das Contas, Coplex and Norse Energy do Brasil) which effectively hold 10% working interest in Manati gas field. In addition to this, the bond agreement also stipulates issue of unconditional and irrevocable on-demand guarantees in favour of the Bond Trustee by the Brazilian subsidiaries.

The main covenants of the bond loan are as follows:
- The issuer shall maintain at all times, a Book Equity ratio of the Group of minimum 25% which needs to be measured at every quarter end date. Book Equity ratio measures the proportion of the Group's equity compared to total assets.
- The issuer shall not declare or make any dividend payments or other distributions or loans to its shareholders and should not engage in any activity to the effect of reducing capital or equity in the parent company.
- The Company shall not provide loans to any of its Brazilian subsidiaries, except to the extent such loans are subject to a first priority pledge to secure the obligations of the bond issuer.
- The Company shall not provide guarantees or other credit support to, or make investments in, any person or entity outside the Group, other than in the conditions as prescribed in the loan agreement.

The amount above includes accrued interest to December 31, 2010 and is net of unamortized bond issue costs of USD 4,490,000.

NOTE 11. WARRANTS LIABILITY

Under the demerger agreement Panoro agreed to issue 7,500,000 warrants to the existing holders of the NEC-J warrant instrument in NEC. The liability related to these warrants is USD 1.2 million, which is the fair value as at December 31, 2010. One warrant gives conversion right to one share in the Company during the exercise period at NOK 15.71.

The warrant market price as at December 31, 2010 was NOK 0.93 and expire on July 1, 2011.

NOTE 12. OTHER CURRENT LIABILITIES

The breakdown of other current liabilities is below:

USD 000	**2010**	**2009**
Accruals	773	-
Employee related costs payable (including taxes)	274	-
TOTAL	**1,047**	**-**

NOTE 13. NON CASH TRANSACTIONS

During 2010, USD 260.5 million worth of shares were issued as consideration for investment in subsidiary shares and net assets acquired.

NOTE 14. COMMITMENTS

Non cancelable operating lease commitments

USD 000	2010	2009
Not later than 1 year	189	-
Later than 1 year and not later than 5 years	757	-
Later than 5 years	757	-
Total	**1,703**	**-**

NOTE 15. FINANCIAL MARKET RISK AND BUSINESS RISK

See details in Note 22 in the consolidated financial statements.

NOTE 16. GUARANTEES AND PLEDGES

The bondholders carry a first priority pledge over Company's shares in Brazilian subsidiaries (Rio das Contas, Coplex and NEdB) which effectively hold 10% working interest in Manati gas field. In addition to this, the bond agreement also stipulates issue of unconditional and irrevocable on-demand guarantees in favour of the Bond Trustee by the Brazilian subsidiaries.

NOTE 17. SUBSEQUENT EVENTS

Farm down on Round 9 Licenses
On January 24, 2011, the Company reached agreement with Vanco Brasil Exploração e Produção de Petróleo e Gas Natural Ltda, a wholly owned Subsidiary of Vanco Overseas Energy Ltd («Vanco») to farm out 35% of Panoro's 50% interest in its three shallow water exploration licenses SM-1035, SM-1036 and SM-1100 in the Santos Basin offshore Brazil. After this transaction, Panoro will retain 15% interest in these blocks. Under the same terms, Panoro's partner in the blocks; Brasoil have also farmed out their 50% interest down to 15% to Vanco.

Vanco will assume operatorship and hold a 70% working interest in the three licenses. Upon ANP approval, Panoro Energy will receive net proceeds of approximately USD 15 million, covering Panoro's historical costs on the licenses. Vanco will finance Panoro's share of drilling costs for three exploration wells, one on each license. Furthermore, Vanco will be entitled to recover the financed portion of successful wells and half the financed portion of unsuccessful wells from Panoro's share of future production from discoveries made on the licenses.

The transaction includes an option for Panoro Energy to increase working interest in the licenses to 20%, prior to commencement of drilling the first exploration well. In that event, Panoro will have to fund 5% of the past costs, work program costs and future drilling costs of the wells.

NOK 550 Million Equity Issue
In March 2010, the Company raised gross NOK 550 million (~USD 95 million) in new equity in a private placement, directed at Norwegian and international institutional investors. The share issue was oversubscribed at the top end of the range and the price in the book-building was set at NOK 7.80 per share. 70,500,000 shares were issued following the approval of the private placement in Extraordinary General Meeting («EGM»).

On February 16, 2011 the Company increased the share capital by 10% through issue of 16,394,708 shares of NOK 1.460471768 each. This increase is within the 10% proxy approved by the EGM in 2010.

On March 22, 2011 the Company raised gross NOK 0.77 million through a subsequent offering directed towards PEN shareholders and warrant holders who were not allocated shares in the private placement. As a result of the offering the Company has issued 98,705 shares at a subscriptions price of NOK 7.89 per share. This offering was also approved in the EGM held on March 1, 2011.

STATEMENT OF DIRECTORS' RESPONSIBILITY

We confirm to the best of our knowledge that the financial statements for the period January 1 to December 31, 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 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.

Oslo, April 14, 2011
The Board of Directors
Panoro Energy ASA

Phil Vingoe
Chairman of the Board

Tord Pedersen
Director

Christine Wheeler
Director

Ragnar Søegaard
Director

Katherine Støvring
Director

Kjetil Solbrække
Chief Excecutive Officer


H
PMNT-1

Statsautoriserte revisorer
Ernst & Young AS
Dronning Eufemias gate 6, NO-0191 Oslo
Oslo Atrium, P.O.Box 20, NO-0051 Oslo
Foretaksregisteret: NO 976 389 387 MVA
Tlf.: +47 24 00 24 00
Fax: +47 24 00 24 01
www.ey.no
Medlemmer av Den norske Revisorforening

To the Annual Shareholders' Meeting of Panoro Energy ASA

AUDITOR'S REPORT

Report on the financial statements

We have audited the accompanying financial statements of Panoro Energy ASA, comprising the financial statements for the Parent Company and the Group. The financial statements of the Parent Company comprise the balance sheet as at 31 December 2010, the statements of income and cash flows for the year then ended as well as a summary of significant accounting policies and other explanatory information. The financial statements of the Group comprise the consolidated statement of financial position as at 31 December 2010, the consolidated statements of comprehensive income, cash flows and changes in equity for the year then ended as well as a summary of significant accounting policies and other explanatory information.

The Board of Directors' and Chief Executive Officer's responsibility for the financial statements

The Board of Directors and Chief Executive Officer 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 financial statements of the Parent Company and the International Financial Reporting Standards as adopted by the EU for the Group, and for such internal control as the Board of Directors and Chief Executive Officer 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.

ERNST & YOUNG

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the financial statements for the Parent Company and the Group.

Opinion on the financial statements of the Parent Company

In our opinion, the financial statements of Panoro Energy ASA have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company as of 31 December 2010 and its financial performance and 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 of the Group

In our opinion, the financial statements of the Group have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Group as of 31 December 2010 and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards on Accounting as adopted by the EU.

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Directors' report concerning the financial statements, the going concern assumption and the proposal for the allocation of the result is consistent with the financial statements and complies with the law and regulations.

Opinion on registration and documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the international standard on assurance engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that the Board of Directors and Chief Executive Officer have fulfilled their duty to properly record and document the Company's accounting information as required by law and generally accepted bookkeeping practice in Norway.

Oslo, 14 April 2011
ERNST & YOUNG AS

Erik Søreng
State Authorised Public Accountant (Norway)

CORPORATE GOVERNANCE

Panoro Energy ASA («Panoro» 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.

Panoro Energy seeks to comply with all the requirements covered in The Norwegian Code of Practice for Corporate Governance. The latest version of the Code of October 21, 2010 is available on the website of the Norwegian Corporate Goverance Board, www.ncgb.no. The Code is based on the «comply or explain» principle, in that companies should explain alternative approaches to any specific recommendation.

1. IMPLEMENTATION AND REPORTING ON CORPORATE GOVERNANCE

The main objective for Panoro Energy ASA's («Panoro Energy») Corporate Governance is to develop a strong, sustainable and competitive company in the best interest of the shareholders, employees and society at large, within the laws and regulations of the respective country. The Board of Directors («the Board») and management aim for a controlled and profitable development and long-term creation of growth through well-founded governance principles and risk management.

The Board will give high priority to finding the most appropriate working procedures to achieve, inter alia, the aims covered by these Corporate Governance guidelines and principles.

The Norwegian Code of Practice for Corporate Governance as of October 21, 2010 comprises 15 points as taken into account below. The complete version of the Corporate Governance report is available on the Company's webpage www.panoroenergy.com.

2. BUSINESS

Panoro Energy ASA is an international independent oil & gas company with offices in Oslo, London and Rio de Janeiro. The Company holds a balanced portfolio of production, development and exploration assets in Brazil and West Africa. Panoro Energy was formed through the merger of Norse Energy's former Brazilian business and Pan-Petroleum on June 29, 2010. The Company is listed on the Oslo Stock Exchange with ticker PEN. The Company's business 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, loans and/or guarantees.»

Panoro Energy currently has two distinct reportable segments, by geographic area being Brazil and West Africa. In Brazil, Panoro Energy participates in a number of oil and gas licenses located in the Santos basin outside the south-east coast of Brazil and in the Camamu-Almada basin in the state of Bahia. In West Africa, the Company participates in a number of licences in Nigeria, Gabon and Congo. Currently the only commercial production is from the Manati field in Brazil.

Vision Statement

Our vision is to use our experience and competence in enhancing value in projects in the South Atlantic basin to the benefit of the countries we operate in and the shareholders of the Company.

3. EQUITY AND DIVIDENDS

Panoro Energy's Board of Directors will ensure that the Company at all times has an equity capital at a level appropriate to its objectives, strategy and risk profile. The oil and gas E&P business is highly capital dependent, requiring Panoro Energy to be sufficiently capitalized. The Board needs to be proactive in order for Panoro Energy to be prepared for changes in the market.

Mandates granted to the Board to increase the Company's share capital are restricted to defined purposes.
Mandates granted to the Board for issue of shares for different purposes will each be considered separately by the General Meeting. Mandates granted to the Board are limited in time to the following year's Annual General Meeting.

Panoro Energy is in a phase where investments in the Company's operations are required to enable future growth, and it is therefore not in a position to distribute dividends. Payment of dividends will be considered in the future, based on the Company's capital structure and dividend capacity as well as the availability of alternative investments.

4. EQUAL TREATMENT OF SHAREHOLDERS AND TRANSACTIONS WITH CLOSE ASSOCIATES

Panoro Energy has one class of shares representing one vote at the Annual General Meeting. The Articles of Association contains no restriction regarding the right to vote.

Any acquisition of own shares will be at market price, and the Company will not deviate from the principle of equal treatment of all shareholders.

The Board may be given a power of attorney by the General Meeting to acquire the Company's own shares.

If the Board of Directors resolves to carry out an increase in share capital on the basis of a mandate granted to the Board, the justification for waiving pre-emption rights of existing shareholders will be disclosed in the stock exchange announcement of the increase in share capital.

All Board members, employees of the Company and close associates must clear transactions prior to trading shares in the Company, firmly regulated by the Company's trading policies.

The Board requires affirmative disclosure of any conflict of interest of Board members and executive personnel.

5. FREELY NEGOTIABLE SHARES

The Panoro Energy ASA share is listed on the Oslo Stock Exchange. There are no restrictions on negotiability in Panoro Energy's Articles of association.

6. GENERAL MEETINGS

Panoro Energy's Annual General Meeting will be held by the end of June each year. An invitation and agenda (including proxy) will be sent out three weeks prior to the meeting to all shareholders in the Company, and all information will also be sent as a stock exchange notice and posted on the Company's webpage. Panoro Energy will ensure that the resolutions and supporting information distributed are sufficiently detailed and comprehensive to allow shareholders to form a view on all matters to be considered at the meeting.

Arrangements will be made for the General Meeting to vote separately on each matter and each candidate nominated for the Companies corporate bodies.

The Chairman of the Board, members of the Nomination Committee, the auditor and the CEO of the Company are normally present at the AGM. Other Board members will aim to be present at the AGM. An independent chairman for the General Meeting will, to the extent possible, be appointed.

Shareholders who are unable to attend in person will be given the opportunity to vote. 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, which allows separate voting instructions for each matter to be considered by the meeting and for each of the candidates nominated for elections will be prepared. Dividend, remuneration to the Board and the election of the auditor, will be decided at the Annual General Meeting. After the meeting, the minutes are released on the Company's website.

7. NOMINATION COMMITTEE

The Company shall have a Nomination Committee consisting of 2 to 3 members to be elected by the Annual General Meeting for a two year period. The majority of the Nomination Committee shall be independent of the Board and the day-to-day management. The Nomination Committee currently counts three members, with an independent majority. The Nomination Committee's duties are to propose to the General Meeting shareholder elected candidates for election to the Board, and to propose remuneration to the Board. The Annual General Meeting will stipulate guidelines for the duties of the Nomination Committee.

8. CORPORATE ASSEMBLY AND BOARD OF DIRECTORS – COMPOSITION AND INDEPENDENCE

The composition of the Board ensures that the Board represents the common interests of all shareholders and meets the Company's need for expertise, capacity and diversity. The members of the Board represent a wide range of experience including shipping, offshore, energy, banking and investment. The composition of the Board ensures that it can operate independently of any special interests. Members of the Board are elected for a period of two years. Recruitment of members of the Board will be phased 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.

9. THE WORK OF THE BOARD OF DIRECTORS

The Board has the overall responsibility for the management and supervision of the activities in general. The Board decides the strategy of the Company and has the final say in new projects and/or investments. The Chairman of the Board ensures that the Board's duties are undertaken in efficient and correct manner. The Board shall stay informed of the Company's financial position and ensure adequate control of activities, accounts and asset management. The Board member's experience and skills are crucial to the Company both from a financial as well as an operational perspective. The Board of Directors evaluates its performance and expertise annually. The CEO is responsible for the Company's daily operations and ensures that all necessary information is presented to the Board.

An annual schedule for the Board meetings is prepared and discussed together with a yearly plan for the work of the Board.

In addition to the Nomination Committee elected by the General Meeting, the Board has an Audit Committee and a Remuneration Committee as sub-committees of the Board. The members are independent of the executive management.

10. RISK MANAGEMENT AND INTERNAL CONTROL

Financial and internal control, as well as short- and long term strategic planning and business development, all according to the Panoro Energy's business idea and vision and applicable laws and regulations, are the Board's responsibilities and the essence of its work. This emphasizes the focus on ensuring proper financial and internal control, including risk control systems.

The Board approves the Company's strategy and level of acceptable risk, as documented in the guiding tool «Risk Management».

The Board carries out an annual review of the Company's most important areas of exposure to risk and its internal control arrangements.

For further details on the use of financial instruments, refer to relevant note in the consolidated financial statements in the Annual Report and the Company's guiding tool «Financial Risk Management» described in relevant note in the consolidated financial statements in the Annual Report.

11. REMUNERATION OF THE BOARD OF DIRECTORS

The remuneration to the Board will be decided at the Annual General Meeting each year.

Panoro Energy is a diversified company, and the remuneration will reflect the Board's responsibility, expertise, the complexity and scope of work as well as time commitment.

The remuneration to the Board is not linked to the Company's performance, and share options will normally not be granted to Board members. Remuneration in addition to normal director's fee will be specifically identified in the Annual Report.

Deviation from the Code of Practice: The Chairman of the Board, Dr. Phil Vingoe, has in 2010 been granted 375,000 share options in the Company. Dr. Vingoe is the previous CEO of Pan-Petroleum, the company which Panoro Energy merged with in 2010. The share options were granted as recognition for the special contribution made by Dr. Vingoe for his time, work and dedication, and because of the likely high demands on him over the 6 to 12 months following the merger.

12. REMUNERATION OF THE EXECUTIVE PERSONNEL

The Board has established guidelines for the remuneration of the executive personnel. 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. Panoro Energy has appointed a Remuneration Committee (RC) which meets regularly. The objective of the committee is to determine the compensation structure and remuneration level of the Company's CEO. Remuneration to the CEO shall be at market terms and decided by the Board and made official at the AGM every year. Remuneration to other key executives shall be proposed by the CEO to the RC.
The remuneration shall, both with respect to the chosen kind of remuneration and the amount, encourage addition of values to the Company and contribute to the Company's common interests – both for management as well as the owners.

13. INFORMATION AND COMMUNICATION

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

The Company publishes an annual financial calendar including the dates the Company plans to publish the quarterly results and the date for the Annual General Meeting. 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.

Panoro Energy 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.

The Chairman, CEO, CFO and Investor Relations of Panoro Energy are the only people who are authorized to speak to, or be in contact with the press – unless otherwise described or approved by the Chairman, CEO and/or CFO.

14. TAKEOVERS

As of today the Board does not hold any authorizations as set forth in Section 4-17 of the Securities Trading Act, to effectuate defense measures if a takeover bid is launched on Panoro Energy.

The Board may be authorized by the General Meeting to acquire its own shares, but will not be able to utilize this in order to obstruct a takeover bid, unless approved by the General Meeting following the announcement of a takeover bid.

If an offer is made for the Company's shares, the Board will issue a statement evaluating the offer and making a recommendation as to whether shareholders should or should not accept the offer. The Board will also arrange a valuation with an explanation from an independent expert. The valuation will be made public no later than at the time of the public disclosure of the Board's statement. Any transactions that are in effect a disposal of the Company's activities will be decided by a General Meeting.

15. AUDITOR

The auditor will be appointed at the General Meeting. Ernst & Young has previously been appointed.

The Board has appointed an Audit Committee (AC) as a sub-committee of the Board, which will meet with the auditor regularly. The objective of the committee is to focus on internal control, independence of the auditor, risk management and the Company's financial standing.

The auditors will send a complete Management Letter/Report to the Board – which is a summary report with comments from the auditors including suggestions of any improvements if needed. The auditor is also present in at least one Board meeting each year.

In view of the auditor's independence of the Company's executive management, the auditor is also present in at least one Board meeting each year at which neither the CEO nor other members of the executive management are present.

The Board reports 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.

1. ABOUT PANORO

Panoro Energy ASA is an international independent oil and gas company with offices in Oslo, London and Rio de Janeiro. The Company holds a balanced portfolio of production, development and exploration assets in Brazil and West Africa.

Panoro's main purpose is to capitalize on the value of its assets. However, the Company acknowledges its responsibility for the methods by which this is achieved. The principles set out below seek to ensure that Panoro operates in a socially and environmentally responsible manner, encouraging a positive impact through its activities and those of its partners and other stakeholders.

2. MESSAGE FROM THE CEO

The world's need for energy creates challenges and is pushing us to explore in new areas. This also creates dilemmas, as we face both geographical and political challenges in our work.

Being a commercial entity, Panoro is focused on maximizing its assets, and thus shareholder value. Nevertheless, we are mindful of the impact of our activities to achieve this goal; we are firmly committed to embracing our social and environmental responsibility, and to honouring the letter and the spirit of the UN Global Compact principles. We believe that this is the right approach for all our stakeholders, including the host countries, the local communities, our shareholders and business partners.

We are committed to ensuring that our presence has a positive impact wherever we work and invest. We have therefore adopted this Ethical Code of Conduct in March 2011.

3. FRAMEWORK AND SCOPE OF THE ETHICAL CODE OF CONDUCT («ECOC») OF PANORO

3.1 Panoro as a Company, as well as its individual employees, will commit to follow this ECOC.

3.2 Equally, we will work through our stakeholders and partners to ensure that we adhere to the values expressed in the ECOC.

3.3 Finally, the ECOC is based on the ten principles expressed in the UN Global Compact.

4. THE UN GLOBAL COMPACT PRINCIPLES

The UN Global Compact's ten principles in the areas of human rights, labour, the environment and anti-corruption enjoy universal consensus and are derived from:

- The Universal Declaration of Human Rights
- The International Labour Organization's Declaration on Fundamental Principles and Rights at Work
- The Rio Declaration on Environment and Development
- The United Nations Convention Against Corruption

The UN Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment and anti-corruption:

Human rights

- **Principle 1:** Businesses should support and respect the protection of internationally proclaimed human rights; and
- **Principle 2:** make sure that they are not complicit in human rights abuses.

Labour

- **Principle 3:** Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- **Principle 4:** the elimination of all forms of forced and compulsory labour;
- **Principle 5:** the effective abolition of child labour; and
- **Principle 6:** the elimination of discrimination in respect of employment and occupation.

Environment

- **Principle 7:** Businesses should support a precautionary approach to environmental challenges;
- **Principle 8:** undertake initiatives to promote greater environmental responsibility; and
- **Principle 9:** encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

- **Principle 10:** Businesses should work against corruption in all its forms, including extortion and bribery.

5. HOST COUNTRIES AND LOCAL COMMUNITIES

In addition to these principles, Panoro is aware of the responsibility of the Company and its operations to the host country and the local community. Wherever Panoro operates, the Company will be committed to:

- observe local laws and rules
- respect the sovereignty of the state
- observe and, through our example and that of our stakeholders, promote the rule of law
- encourage the employment of local staff
- engage in capacity building, through the transfer of skills and technologies
- work with local communities by contributing to improve their health, education and welfare
- respect indigenous people and their traditions
- minimize disturbances that may be caused by our operations
- be mindful of the impact of our security arrangements on local communities
- refrain from any involvement in tribal or internal armed conflicts or acts of violence

6. STAKEHOLDERS

The stakeholders of Panoro are defined as entities that are influenced by, or have influence on, the development of Panoro's assets. Panoro aims to commit to its ethical principles by working through its stakeholders, as well as monitoring how those stakeholders view Panoro's implementation of its ECOC.

Stakeholder	Influence	Implementation of ECOC
Employees	Panoro recognizes its influence and its responsibility to its employees, as well as to their close surroundings. Equally, the Company recognizes the importance of attracting and retaining talent in order to fulfil its business and ethical goals.	Panoro will consistently train its employees to adhere to Company standards and procedures. Each employee is expected to learn about and to undertake training on the ECOC on a regular basis.
Partners	Panoro operates and maximizes the value of its assets mainly in partnership with other entities.	Through partnership agreements, as well as through formal and informal communication, Panoro will seek to use its influence to implement its ECOC throughout its joint operations.
Operators	The operators are the entities that conduct the actual operation of the assets.	Through joint operation agreements, as well as through formal and informal communication, Panoro will seek to maintain the highest ethical standards in all operations; focusing on HS&Q, environment, and all other principles listed above in sections 4 and 5.
Shareholders	The Panoro shareholders, including potential shareholders.	Panoro will seek to minimize shareholder risk and maximize value creation by adhering to the highest ethical standards in terms of environmental, legal and other risks based on the above principles. Panoro follows a strict code of governance based on international law and business practice.
Local community	The communities in which the Panoro assets are placed include national authorities and different government bodies, as well as local unions, tribes and other community members.	Each asset has formal meeting points and communication lines set up within its operational structure. Panoro will seek to use these to address issues of interest based on the ECOC, including corruption, HS&Q, and any other issues listed above.

GLOSSARY AND DEFINITIONS

Bbl	One barrel of oil, equal to 42 US gallons or 159 liters
Bm3	Billion cubic meters
BOE	Barrel of oil equivalent
Btu	British Thermal Units, the energy content needed to heat one pint of water by one degree Fahrenheit
M3	Cubic meters
MMbbls	Million barrels of oil
MMBOE	Million barrels of oil equivalents
MMBtu	Million British thermal units
MMm3	Million cubic meters

CONVERSION FACTORS

Natural gas and LNG	To billion cubic metres NG	Billion cubic feet NG	Million tonnes oil equivalent	Million tonnes LNG	Trillion British thermal units	Million barrels oil equivalent
From			Multiply by			
1 billion cubic metres NG	1.00	35.30	0.90	0.73	36.00	6.29
1 billion cubic feet NG	0.028	1.00	0.026	0.021	1.03	0.18
1 million tonnes oil equivalent	1.111	39.20	1.00	0.805	40.40	7.33
1 million tonnes LNG	1.38	48.70	1.23	1.00	52.00	8.68
1 trillion British thermal units	0.028	0.98	0.025	0.02	1.00	0.17
1 million barrels oil equivalent	0.16	5.61	0.14	0.12	5.80	1.00

2111009 · Bolt Communication AS · boltcommunication.no

COMPANY ADDRESSES

Panoro Energy ASA
P.O. Box 1885 Vika, 0124 Oslo
Visiting address: Dr. Maudsgt. 1-3, 0250 Oslo
Norway

Phone: +47 23 01 10 00
Fax: +47 23 01 10 19

Panoro Energy Ltd
43-45 Portman Square
London W1H 6LY
United Kingdom

Tel: +44 (0) 20 3405 1060
Fax: +44 (0) 20 3004 1130

Panoro Energy do Brasil Ltda
Praia de Botafogo, 228, Sala 801
Botafogo – Rio de Janeiro
Brazil
22250-906

Phone: +5521 3078-7475
Fax: +5521 3078-7451