NOT FOR RELEASE, PUBLICATION OR DISTRIBUTION INTO OR IN THE UNITED STATES, CANADA, JAPAN OR AUSTRALIA. THIS PROSPECTUS SERVES AS A LISTING PROSPECTUS AS REQUIRED BY APPLICABLE LAWS AND DOES NOT CONSTITUTE AN OFFER TO BUY, SUBSCRIBE OR SELL ANY SECURITIES.

Prospectus

Panoro Energy ASA

(Registration number: 994 051 067)

Listing of 95,638,921 Shares in Panoro Energy ASA on Oslo Børs

Managers

16 September 2010

Important information

This Prospectus has been prepared in order to provide information about Panoro Energy ASA ("Panoro Energy" or the "Company") and its business in connection with the listing (the "Listing") on Oslo Børs of 95,638,921 Shares in the Company (the "Listing Shares") as described in this Prospectus. The Listing Shares form part of the Shares in the Company that were issued in connection with the merger between the Company and Pan-Petroleum Holding AS approved at an extraordinary general meeting of the Company on 26 April 2010 and completed on 29 June 2010 (the "Merger) and the NOK 380.25 million private placement of Shares that was approved in an extraordinary general meeting of the Company on 26 April 2010 (the "Private Placement") of which NOK 192.5 million (gross proceeds) was closed on 7 June 2010 and 187.75 million (gross proceeds) was closed on 29 June 2010.

THIS PROSPECTUS SERVES AS A LISTING PROSPECTUS FOR THE LISTING SHARES AS REQUIRED BY APPLICABLE LAWS AND DOES NOT CONSTITUTE AN OFFER TO BUY, SUBSCRIBE OR SELL ANY SHARES OR OTHER SECURITIES.

For the definitions of terms used throughout this Prospectus, see Section 17 "Definitions and Glossary of Terms".

The Company has furnished the information in this Prospectus. The Managers makes no representation or warranty, expressed or implied, as to the accuracy or completeness of such information, and nothing contained in this Prospectus is, nor shall be relied upon as, a promise or representation by the Managers. This Prospectus has been prepared to comply with the Norwegian Securities Trading Act and the Norwegian Regulation on Contents of Prospectuses, which implements the Prospectus Directive (EC/2003/71), including the Commission Regulation EC/809/2004, in Norwegian law. The Financial Supervisory Authority has reviewed and approved this Prospectus in accordance with the Norwegian Securities Trading Act section 7-7. This Prospectus has been published in an English version only.

All inquiries relating to this Prospectus should be directed to the Company or the Managers. No other person has been authorised to give any information about, or make any representation on behalf of, the Company in connection with the Listing, and, if given or made, such other information or representation must not be relied upon as having been authorised by the Company or the Managers.

The information contained herein is as of the date hereof and subject to change, completion or amendment without notice. There may have been changes affecting the Company or its subsidiaries subsequent to the date of this Prospectus. Any new material information and any material inaccuracy that might have an effect on the assessment of the Listing Shares arising after the publication of this Prospectus and before the Listing will be published as a supplement to this Prospectus in accordance with section 7-15 of the Norwegian Securities Trading Act.

The contents of this Prospectus shall not to be construed as legal, business or tax advice. Each reader of this Prospectus should consult its own legal, business or tax advisor as to legal, business or tax advice. If in any doubt about the contents of this Prospectus, readers should consult their stockbroker, bank managers, lawyer, accountant or other professional adviser.

In the ordinary course of their respective businesses, the Managers and certain of its affiliates have engaged, and may continue to engage, in investment and commercial banking transactions with the Company and its subsidiaries.

Without limiting the manner in which the Company may choose to make any public announcements, and subject to the Company's obligations under applicable law, announcements relating to the matters described in this Prospectus will be considered to have been made once they have been received by Oslo Børs and distributed through its information system.

Unless otherwise indicated or the context otherwise requires, all references in this Prospectus to "Panoro Energy", the "Panoro Group" or the "Company" are to Panoro Energy ASA and its consolidated subsidiaries.

Investing in the Company's Shares involves risks. See Section 2 "Risk Factors" of this Prospectus.

TABLE OF CONTENTS

1. SUMMARY 7
    1.1 DESCRIPTION OF THE COMPANY 7
    1.2 THE LISTING AND ADMISSION TO TRADING 8
    1.3 EXPENSES IN CONNECTION WITH THE LISTING 9
    1.4 SUMMARY OF RISK FACTORS 9
    1.5 DIRECTORS, MANAGEMENT AND EMPLOYEES 9
    1.6 ADVISORS AND AUDITORS 9
    1.7 SUMMARY OF OPERATING AND FINANCIAL INFORMATION 10
    1.8 SUMMARY OF CAPITALISATION AND INDEBTEDNESS 15
    1.9 MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS 17
    1.10 ADDITIONAL INFORMATION 18

2. RISK FACTORS 20
    2.1 MARKET RISKS 20
    2.2 OPERATIONAL RISKS 21
    2.3 FINANCIAL RISKS 25
    2.4 RISKS RELATED TO THE SHARES 26

3. RESPONSIBILITY FOR THE PROSPECTUS 28
    3.1 THE BOARD OF DIRECTORS OF PANORO ENERGY 28

4. NOTICE REGARDING FORWARD-LOOKING STATEMENTS 29

5. THE MERGER AND LISTING 30
    5.1 THE MERGER 30
    5.2 THE LISTING AND ADMISSION TO TRADING OF THE LISTING SHARES 30
    5.3 ADVISORS AND AUDITORS 32

6. UNAUDITED CONSOLIDATED FINANCIAL INFORMATION 34
    6.1 PANORO GROUP 34
    6.2 BRAZIL GROUP 38
    6.3 PAN GROUP 43
    6.4 TREND INFORMATION AND SIGNIFICANT CHANGES TO THE PANORO GROUP'S FINANCIAL POSITION SINCE 31 DECEMBER 2009 47
    6.5 SEGMENT INFORMATION 48
    6.6 STATUTORY AUDITORS 50

7. OPERATING AND FINANCIAL REVIEW 51
    7.1 COMPARISON FOR THE PERIOD ENDED 30 JUNE 2010 51
    7.2 THE BRAZIL GROUP 52
    7.3 THE PAN GROUP 54

8. CAPITAL RESOURCES 56
    8.1 CASH FLOWS 56
    8.2 WORKING CAPITAL STATEMENT 57

8.3 CAPITALISATION AND INDEBTEDNESS 58
8.4 BORROWINGS 59
8.5 INVESTMENTS 61
8.6 PRESENTATION OF THE COMPANY 61
8.7 PRO FORMA FINANCIALS 77

9. MARKET OVERVIEW 84
9.1 THE ENERGY MARKET 84
9.2 OPEC'S ROLE IN THE OIL MARKET 85
9.3 THE OIL PRICE 85
9.4 THE BALANCE IN THE OIL MARKET 87

10. BOARD OF DIRECTORS, MANAGEMENT AND EMPLOYEES 90
10.1 BOARD OF DIRECTORS 90
10.2 MANAGEMENT 92
10.3 THE NOMINATION COMMITTEE 93
10.4 AUDIT COMMITTEE AND COMPENSATION COMMITTEE 93
10.5 CONFLICTS OF INTERESTS ETC. 93
10.6 REMUNERATION AND BENEFITS 95
10.7 EMPLOYEES 98

11. SHARE CAPITAL AND SHAREHOLDER MATTERS 98
11.1 SHARE CAPITAL AND SHARES 98
11.2 HISTORICAL DEVELOPMENT IN SHARE CAPITAL AND NUMBER OF SHARES 100
11.3 MAJOR SHAREHOLDERS 101
11.4 THE ARTICLES OF ASSOCIATION AND GENERAL SHAREHOLDER MATTERS 102
11.5 SHAREHOLDER AND DIVIDEND POLICY 105
11.6 SHAREHOLDER AGREEMENTS 106
11.7 CORPORATE GOVERNANCE 106

12. TAXATION 107
12.1 NORWEGIAN SHAREHOLDERS 107
12.2 FOREIGN SHAREHOLDERS 109
12.3 INHERITANCE TAX 110
12.4 DUTIES ON TRANSFER OF SHARES 111

13. LEGAL MATTERS 112
13.1 LEGAL AND ARBITRATION PROCEEDINGS 112
13.2 MATERIAL CONTRACTS 113
13.3 RELATED PARTY TRANSACTIONS 113

14. ADDITIONAL INFORMATION 114
14.1 DOCUMENTS ON DISPLAY 114
14.2 STATEMENT REGARDING EXPERT OPINIONS 114
14.3 THIRD PARTY INFORMATION 114

15. GLOSSARY 115

APPENDICES

APPENDIX 1: ARTICLES OF ASSOCIATION OF PANORO ENERGY ASA

APPENDIX 2: Q2 REPORT 2010 PANORO ENERGY ASA

APPENDIX 3: NORSE ENERGY CORP. ASA ANNUAL REPORT 2009

APPENDIX 4: NORSE ENERGY CORP. ASA ANNUAL REPORT 2008

APPENDIX 5: NORSE ENERGY CORP. ASA ANNUAL REPORT 2007

APPENDIX 6: PAN PETROLEUM HOLDING CYPRUS LIMITED FINANCIAL STATEMENTS FOR 2009 AND 2008

APPENDIX 7: INDEPENDENT ASSURANCE REPORT ON THE PRO FORMA FINANCIAL INFORMATION

APPENDIX 8 ANNUAL STATEMENT OF RESERVES 2009

APPENDIX 9: HISTORICAL FINANCIAL INFORMATION WITH COMPILATION DETAILS

APPENDIX 10: Q2 2010 INCOME STATEMENT FOR PAN PETROLEUM HOLDING'S (CYPRUS) LIMITED

APPENDIX 11: PANORO ENERGY ASA ANNUAL ACCOUNTS 2009

1. SUMMARY

The following summary should be read as an introduction to the Prospectus and in conjunction with, and is qualified in its entirety, by the more detailed information and the Appendices appearing elsewhere in this Prospectus. Any decision to invest in the Shares should be based on a consideration of the Prospectus as a whole by the investor.

In case a claim relating to the information contained in the Prospectus is brought before a court, the plaintiff Investor might, under the national legislation, have to bear the cost of translating the Prospectus before legal proceedings are initiated. Civil liability attaches to those persons who have tabled the summary including any translation thereof, and applied for its notification, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus.

1.1 DESCRIPTION OF THE COMPANY

Introduction

Panoro Energy's legal and commercial name is Panoro Energy ASA. Panoro Energy is a Norwegian Public Limited Company organised under the Norwegian Public Limited Companies Act of 19 June 1997 No 45. Panoro Energy's registered organization number is 994 051 067. The company was incorporated on 28 April 2009 under the name Startup 387 09 AS. The incorporation name was New Brazil Holding ASA and the Company was renamed to Panoro Energy ASA on 1 June 2010.

Panoro Energy's registered office is at Dr. Maudsgate 1-3, 0124 Oslo, Norway. The Company's telephone number is + 47 23 01 10 00.

History and development

In 2005, the two companies Northern Oil ASA and NaturGass (USA) AS merged and changed its name to Norse Energy Corp. ASA ("Norse Energy"). On 13 July 2005 Norse Energy was listed on the Oslo Stock Exchange under the ticker symbol "NEC".

In a general meeting in Norse Energy on 28 January 2010 it was resolved that Norse Energy should be divided into two parts, where ownership of Norse Energy's mainland business (i.e., the business in the US and its associated assets) was to be retained by Norse Energy while the ownership of the business in Brazil through Norse Energy do Brasil S.A. and its associated assets was to be transferred to Panoro Energy (the "Demerger").

The Demerger and the separation of the two business areas of Norse Energy and the separate listing of Panoro Energy was assumed to optimise the capital structure and provide considerable growth potential in the respective markets. The Demerger was completed on 7 June 2010 and Panoro Energy was assumed for listing on Oslo Børs on 8 June 2010. Through the Demerger Panoro Energy acquired, among other things, 70% of the shares in NEdB.

At an extraordinary general meeting of the Company on 26 April 2010, a merger between the Company and Pan-Petroleum Holding AS ("Pan Holding") was approved (the "Merger"). The objective of the Merger was to create a significant E&P company with organizations and assets that are complementary and which jointly should enable superior performance. The Merger was completed on 29 June 2010 with Pan Holding as the assigning entity and Panoro Energy as the acquiring entity. Through the Merger, Panoro Energy acquired 100% of the shares in Pan Group and the 30% of the shares in NEdB not already owned by the Company.

Research and development, patents and licenses

In order to operate in Brazil and West Africa, the Company is dependent on certain exploration and production licenses. The Company currently holds interests in the following licenses:

Licence	**Country**	**Interest**
BCAM-40/Manati (including Camarão Norte	Brazil	10%
Sardinha	Brazil	20%
Cavalo Marinho	Brazil	50%
Estrela-do-Mar	Brazil	65%
Coral	Brazil	35%
S-M 1035	Brazil	50% (Operator)
S-M 1036	Brazil	50% (Operator)
S-M 1100	Brazil	50% (Operator)
Dussafu Marin (Gabon)	Gabon	33.34 %
OML 90 Ajapa Field (Nigeria)[1]	Nigeria	40%
OML 90 Aje Field (Nigeria)[2]	Nigeria	12,1913% revenue interest 6,502% participating interest
Mengo-Kunji-Bundi (MKB license)	Republic of Congo	20%
Block 3 (Joint Development Zone of Nigeria Sao Tome and Principe)	JDZ	10%

The Company has not had any material expenses to research and development.

1.2 THE LISTING AND ADMISSION TO TRADING

The Shares in Panoro Energy were approved for listing in the board meeting of Oslo Børs on 27 May 2010 and were listed on Oslo Børs on 8 June 2010.

However, the Listing Shares have been non-listed shares issued under a separate ISIN pending completion of a listing prospectus for the Listing Shares. The Listing Shares will be admitted to trading on Oslo Børs following approval and publication of this Prospectus. Panoro Energy expects the Listing Shares to be admitted to trading on or about 16 September 2010. At the same time, the Listing Shares will be transferred to the same ISIN as other Shares, being ISIN NO 001 0564701.

The Listing Shares are in every respect equal to the already listed Shares and all Shares carry equal voting rights.

To Panoro Energy's knowledge no Shares are listed on any other authorised or non-authorised market place other than Oslo Børs.

1.3 EXPENSES IN CONNECTION WITH THE LISTING

Costs attributable to the Listing will be borne by the Company. The total costs are expected to amount up to approximately NOK 4 million, which include cost related to fees to the Managers, Oslo Børs, printing and distribution of this Prospectus, costs to legal advisors and the Company's auditor.

1.4 SUMMARY OF RISK FACTORS

A number of risk factors may adversely affect the Company. The risks outlined in Section 2 are not exhaustive, and other risks not discussed herein may also adversely affect the Company. Prospective investors should consider carefully the information contained in this Prospectus and make an independent evaluation before making an investment decision. The risk factors the Company and its Shares are subject to are inter alia; competition, availability of drilling equipment and access restrictions, the Company's oil and natural gas production, new reserves, technical risk, estimates for abandonment costs, permits and licenses, governmental regulations, title to properties, commodity price volatility, environmental risks, key personnel, liquidity risk, credit risk, exchange risk, interest rate risk and commodity price risk.

1.5 DIRECTORS, MANAGEMENT AND EMPLOYEES

Board of directors

The Company's Board of Directors consists of the following members: Dr Phil Vingoe (Chairman), Katherine Hatlen Støvring, Ragnar Thor Grundtvig Søegaard, Tord Pedersen and Christine M.K. Wheeler.

Management

The executive management of the Company currently consists of the following members: Kjetil Solbrække (CEO), Anders Kapstad (CFO), Nishant Dighe (COO), Thor Tangen (EVP Field Development) and Alistair Stobie (EVP New Ventures).

Employees

As of the date of this Prospectus, the Company's operations involve about 38 people.

1.6 ADVISORS AND AUDITORS

Managers

The Managers for the Listing is Arctic Securities ASA and Pareto Securities AS.

Legal Advisor

The Company's legal advisor is Advokatfirmaet Selmer.

Independent Auditor

The Company's auditor is Ernst & Young AS.

1.7 SUMMARY OF OPERATING AND FINANCIAL INFORMATION

The legal entity Panoro Energy ASA (established 28 April 20009) was acquired by Norse Energy in December 2009. The legal entity had no operations or activity in 2009.

The table below is a summary of the Statement of Financial Position of Panoro Energy ASA as of 31 December 2009:

Statement of Financial Position; Panoro Energy ASA	**(USD 000)**
Assets	31.12.2009
Current assets	
Cash and cash equivalents	173
Total assets	173
Equity and liabilities	
Equity	173
Total equity and liabilities	173

Unaudited Consolidated Financial Statements (USD 000)

Q2 2009	Q1 2010	Q2 2010		YTD 2010	YTD 2009
(Unaudited) - USD 000				*(Unaudited) - USD 000*	
7,781	10,236	9,695	Oil and Gas revenue	19,931	14,003
-	251	-	Other income	251	-
7,781	**10,487**	**9,695**	**Total revenues and other income**	**20,182**	**14,003**
839	954	1,164	Production costs	2,118	1,886
-	81	4,659	Exploration related costs	4,740	7,355
1,654	2,271	2,786	General and administrative costs	5,057	3,571
-	780	4,678	Merger and restructuring costs	5,458	-
5,288	**6,401**	**(3,592)**	**EBITDA**	**2,809**	**1,191**
1,690	1,811	1,966	Depreciation	3,777	3,170
3,598	**4,590**	**(5,558)**	**EBIT - Operating income/(loss)**	**(968)**	**(1,979)**
-	-	2,931	Gain on acquisition of subsidiary	2,931	-
(3,375)	(4,103)	(5,678)	Net finance income/(costs)	(9,781)	(6,008)
31,421	(2,513)	(47)	Net foreign exchange gain/(loss)	(2,560)	32,209
-	-	(577)	Warrants effect - gain/(loss)	(577)	-
31,644	**(2,026)**	**(8,929)**	**Income/(loss) before tax**	**(10,955)**	**24,222**
(15,397)	377	2,008	Income tax benefit/(expense)	2,385	(7,961)
16,247	**(1,649)**	**(6,921)**	**Net income/(loss) for the period**	**(8,570)**	**16,261**
13,526	(2,175)	(10)	Exchange differences arising from translation of foreign operations	(2,185)	13,765
13,526	**(2,175)**	**(10)**	**Other comprehensive income/(loss) for the period (net of tax)**	**(2,185)**	**13,765**
29,773	**(3,824)**	**(6,931)**	**Total comprehensive income/(loss) for the period**	**(10,755)**	**30,026**
			Net income /(loss) for the period attributable to:		
16,247	(1,695)	(5,502)	Equity holders of the parent	(7,197)	16,261
-	46	(1,419)	Non-controlling interests	(1,373)	-
			Total comprehensive income/(loss) for the period attributable to:		
29,773	(3,217)	(5,151)	Equity holders of the parent	(8,368)	30,026
-	(607)	(1,780)	Non-controlling interests	(2,387)	-
			Earnings per share		
0.50	(0.03)	(0.08)	(USD) – Basic and diluted for income/(loss) for the period attributable to equity holders of the parent	(0.11)	0.56

Unaudited Condensed Consolidated Statements of Financial Position (USD 000)

Amounts in *USD 000* **(Unaudited)**	**30-Jun 2010**	**31-Mar 2010**	**31-Dec 2009**
Non-current assets			
Licenses and exploration assets	190,375	124,409	126,300
Production assets and equipment	102,856	106,380	111,300
Property, furniture, fixtures and office equipment	1,460	1,076	2,806
Deferred tax assets	27,411	24,819	22,564
Other non-current financial assets	-	301	308
Other non-current assets	1,237	1,251	1,791
Total Non-current assets	***323,339***	***258,236***	***265,069***
Current assets			
Trade and other receivables	15,383	14,709	14,715
Cash and bank balances	56,347	10,239	13,105
Total current assets	***71,730***	***24,948***	***27,820***
Assets classified as held for sale	30,000	-	-
Total Assets	***425,069***	***283,184***	***292,889***
Equity			
Share capital	38,141	76,692	76,692
Other equity	183,972	(10,842)	(7,625)
Total Equity attributable to equity holders of the parent	***222,113***	***65,850***	***69,067***
Non-controlling interests	-	29,477	30,084
Total Equity	***222,113***	***95,327***	***99,151***
Long-term liabilities			
Long-term interest bearing debt	100,665	38,284	-
Deferred tax liabilities	11,731	-	-
Liabilities related to w arrants	577	-	-
Other long-term liabilities	24,267	20,756	20,928
Total long-term liabilities	***137,240***	***59,040***	***20,928***
Short-term liabilities			
Short-term interest bearing debt	29,817	39,499	80,887
Loan payable to Norse Energy Corporation ASA	-	63,433	57,946
Accounts payable, accruals and other liabilities	35,899	25,885	33,977
Total short-term liabilities	***65,716***	***128,817***	***172,810***
Total Liabilities	***202,956***	***187,857***	***193,738***
Total Equity and Liabilities	***425,069***	***283,184***	***292,889***

Unaudited Consolidated Cash-flow statement (USD 000)

	30 June 2010 *USD 000* (Unaudited)	30 June 2009 *USD 000* (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income / (loss) for the period before tax	(10,955)	24,222
Adjusted for:		
Depreciation	3,761	3,170
Market adjustments for warrant effects	577	-
Non-cash exploration related costs	-	7,300
Gain on sale of property	(251)	-
Net finance costs	9,781	6,008
Other adjustments -including working capital	(20,108)	(61,770)
Net cash flows from operating activities	**(17,195)**	**(21,070)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in Exploration, production and other assets	(954)	(9,546)
Proceeds from sale of property	1,421	-
Net cash acquired at acquisitions	4,304	-
Net cash flows from investing activities	**4,771**	**(9,546)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from issuance of shares	54,851	30,000
Net interests paid	(8,417)	(2,840)
Financial liabilities raised / (repaid)	9,135	(4,117)
Net cash flows from financing activities	**55,569**	**23,043**
Foreign exchange differences	97	2,550
Change in cash and cash equivalents during the period	43,242	(5,023)
Cash and cash equivalents at the beginning of the period	10,655	7,597
Cash and cash equivalents at the end of the period	**53,897**	**2,574**

Unaudited Consolidated changes in equity (USD 000)

For six months ended 30 June 2010 Amounts in *US$000*	Attributable to equity holders of the parent Issued capital	Share premium	Retained earnings	Currency translation adjustment	Total	Non-controlling interest	Total equity
At 1 January 2010 (unaudited)	76,692	-	(30,005)	22,380	69,067	30,084	99,151
Income / (loss) for the period	-	-	(1,695)	-	(1,695)	46	(1,649)
Other comprehensive income	-	-	-	(1,522)	(1,522)	(653)	(2,175)
Total Comprehensive income	-	-	(1,695)	(1,522)	(3,217)	(607)	(3,824)
At 31 March 2010 (unaudited)	76,692	-	(31,700)	20,858	65,850	29,477	95,327
Income / (loss) for the period	-	-	(5,502)	-	(5,502)	(1,419)	(6,921)
Other comprehensive income	-	-	-	351	351	(361)	(10)
Total Comprehensive income	-	-	(5,502)	351	(5,151)	(1,780)	(6,931)
Re-organisation of share capital on de-merger	(76,692)	-	-	-	(76,692)	-	(76,692)
Issue of shares - for de-merger and acquisition of Pan AS	31,372	151,883	-	-	183,255	(27,697)	155,558
Issue of shares - for cash (net)	6,769	48,082	-	-	54,851	-	54,851
At 30 June 2010 (unaudited)	**38,141**	**199,965**	**(37,202)**	**21,209**	**222,113**	**-**	**222,113**

For six months ended 30 June 2009 Amounts in *US$000*	Attributable to equity holder of the parent Issued capital	Share premium	Retained earnings	Currency translation adjustment	Total	Non-controlling interest	Total equity
At 1 January 2009 (unaudited)	45,257	-	(40,141)	1,760	6,876	-	6,876
Income / (loss) for the period	-	-	14	-	14	-	14
Other comprehensive income	-	-	-	239	239	-	239
Total Comprehensive income	-	-	14	239	253	-	253
At 31 March 2009 (unaudited)	45,257	-	(40,127)	1,999	7,129	-	7,129
Income / (loss) for the period	-	-	16,247	-	16,247	-	16,247
Other comprehensive income	-	-	-	13,526	13,526	-	13,526
Total comprehensive income for the pe	-	-	16,247	13,526	29,773	-	29,773
Dilution of shares to minority	41,221	-	-	-	41,221	26,950	68,171
At 30 June 2009 (unaudited)	**86,478**	**-**	**(23,880)**	**15,525**	**78,123**	**26,950**	**105,073**

Trend information and significant changes to Panoro Energy's financial or trading position since 30 June 2010

There have been no changes to Panoro Group's financial or trading position since 30 June 2010.

As of Q2 2010 the Company had production at the Manati field in Brazil only. Reference is made to section 7.1.1. Management discussion and analysis, with regard to material developments up until 30 June 2010.

Panoro Energy and its partners are currently discussing an amendment to the existing gas contract at Manati to include all additional gas volumes in the field, beyond the 23 billion cubic meters currently under the contract.

On the three Brazil Round 9 blocks, there is currently a drill or drop decision in March 2011. Our ability to continue in the blocks and undertake the financial commitment of drilling a well is dependent on our ability to farm out these blocks to new partners. The Company is planning to attract a partner and a farm-out process will commence shortly

In mid-July 2010 operations commenced at the MKB field in Congo. This includes running a completion string, hydraulically fracturing the wells and pilot production testing. The Company has been discussing with a bank syndicate the opportunity to leverage on the MKB Congo operation with a ring fenced reserve based lending facility. Panoro expects to have a financing proposal completed by Q2-11, pending successful completion of the additional four well drilling program.

On the Aje field in Nigeria, the Company is assessing the impact of new PSDM interpretation, the lack of commercial agreements to transport and sell production, and likely cost increases. These factors may delay the movement of the project through the next gate.

The Ajapa field was classified as held for sale as of 30 June 2010, based on a signed sale and purchase agreement. The sale is contingent upon funding as well as government approval. The field is awaiting start-up for commercial production, however as Panoro Energy is divesting its interest the Company will not provide operational updates going forward.

The Company does not know of any other trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the Company's prospects for the current financial year.

1.8 SUMMARY OF CAPITALISATION AND INDEBTEDNESS

The following table shows the actual capitalisation and indebtedness as of 30 June 2010 (USD 000). The numbers for the Panoro Group as of 30 June 2010 are unaudited and have been derived from the 2Q 2010 interim financial statements in appendix 2. The information of the capitalization and indebtedness table as such is unaudited.

	Panoro Group
	30.06.2010
Total capitalization	
A. Share capital	34,181
B. Legal reserve	0
C. Other reserves	199,965
D. Total equity (A+B+C)	234,146
E. Long-term debt guaranteed	0
F. Long-term debt secured	100,666
G. Long-term debt (unguaranteed/unsecured)	0
H. Total long-term debt (E+F+G)	100,666
I. Current debt guaranteed	0
J. Current debt secured	19,574
K. Current debt (unguaranteed/unsecured)	10,243
L. Total current debt (I+J+K)	29,817
N.Total capitalization (D+H+L)	364,629
Net indebtedness	
A. Cash	56,347
B. Cash equivalent	0
C. Trading securities	0
D. Liquidity (A+ B+C)	56,347
E. Current financial receivable	0
F. Current bank debt	12,959
G. Current portion of non current debt	6,615
H. Other current financial debt	10,243
I. Current financial debt (F+G+H)	29,817
J. Net current financial indebtedness(I-E-D)	-26,530
K. Non current bank loans	64,534
L. Bond issued	36,132
M. Other non current loans	0
N. Non current financial indebtedness (K+L+M)	100,666

There have been no material changes in the balances after 30 June 2010.

1.9 MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

Major shareholders

The five largest shareholders in Panoro as appearing in the company's share register per 13 September 2010 are shown in the table below:

	Investor	Shares	%	Type
1	GOLDMAN SACHS INT. - EQUITY -	14,175,287	20.75%	Nominee
2	NORSE ENERGY CORP.ASA	9,299,522	13.61%	Company
3	MORGAN STANLEY & CO INC. NEW YORK	4,307,457	6.31%	Nominee
4	UBS AG, LONDON BRANCH	1,891,830	2.77%	Nominee
5	MORGAN STANLEY & CO INTERNAT. PLC	1,594,792	2.33%	Nominee
6	ARCTIC SECURITIES ASA MEGLERKONTO	1,154,163	1.69%	Broker
7	WESTCAP A/S	747,020	1.09%	Company
8	PARETO SECURITIES ASA MEGLERKONTO INNLAND	697,543	1.02%	Broker
9	DNB NOR SMB VPF	650,000	0.95%	Company
10	GOLDMAN SACHS & CO - EQUITY	623,948	0.91%	Nominee
11	NORDNET BANK AB	614,413	0.90%	Nominee
12	PARETO SECURITIES ASA MEGLERKONTO INNLAND	586,120	0.86%	Company
13	JPMORGAN CHASE BANK	463,700	0.68%	Nominee
14	FARSTAD JAN HENRY	418,561	0.61%	Private investor
15	NICON HOLDING AS	400,000	0.59%	Company
16	SAF INVEST AS	400,000	0.59%	Company
17	DANSKE BANK A/S	393,057	0.58%	Nominee
18	JPMBLSA	367,700	0.54%	Nominee
19	PACTUM AS	350,000	0.51%	Company
20	MALERMESTER AE INVEST AS	313,906	0.46%	Company

The major shareholders of Panoro are defined as shareholders holding more than 5% of the share capital in the company. Panoro's largest shareholder are sub-funds of Sector Umbrella Trust, a trust established under the laws of Ireland, acting through and managed by Sector Omega ASA pursuant to an investment management agreement between Sector Asset Management Ltd, as manager of Sector Umbrella Trust, and Sector Omega ASA (hereinafter referred to as "Sector"). Sector holds shares in various nominee accounts with the largest portion held within in the Goldman Sachs account. Following the approval of this Prospectus, Sector aggregate holding of listed shares will be 108,020,028 shares equalling 65.9% of the issued shares in Panoro.

In accordance with the disclosure obligations under the Norwegian Securities Trading Act, shareholders acquiring ownership to or control over 5% or more of the share capital of a company listed on Oslo Børs must notify the stock exchange immediately. The table above shows the percentage held by such notifiable shareholders.

Related party transactions since 2007

The Company or, prior to completion of the Demerger, Norse Energy with respect to the business acquired by the Company in the Demerger, has completed transactions with related parties in the period from 2007 and up until the date of this Prospectus, as summarised below. The agreements pertaining to these transactions are all entered into on market terms and in accordance with provisions in the Norwegian Public Limited Companies Act.

2009: The sale of 30% of the shares in NEdB to Sector at a purchase price of USD 30,000,000. The purchase price was settled in accordance with the agreement and accordingly there are no amounts outstanding with respect to the transaction.

2010: The Merger between the Company and Pan Holding, the latter being owned by Sector with approximately 99% prior to completion of the Merger.

1.10 ADDITIONAL INFORMATION

Share capital and shareholder matters

All the Shares are issued in accordance with Norwegian law, and vested with equal shareholder rights in all respects. There is one class of Shares in Panoro. Panoro's Articles of Association do not contain any provisions imposing any limitations on the ownership or the tradability of the Shares.

The Shares have been created under the Norwegian Public Limited Liability Companies Act and registered in book-entry form in the VPS under the international securities identification number ISIN NO 001 0564701.

As of the date of this Prospectus, Panoro's registered share capital is NOK 239,440,083.25 divided into 163,947,081 Shares each with a nominal value of NOK 1.460471768. All the Shares are authorised and fully paid.

As of the date of this Prospectus Panoro does not own any treasury shares.

The registrar for the Shares with the VPS is Nordea Bank Norge ASA, Verdipapirservice, P.O. Box 1166 - Sentrum, N-0107 Oslo, Norway.

The dilutive effect in connection with the Listing will be 58%.

Articles of Association

The Articles of Association of Panoro are included as Appendix 1 to this Prospectus. According to Section 1 of the Articles of Association, the Company's business shall be 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.

Documents on display

For the life of this Prospectus the following documents (or copies thereof), where applicable, may be inspected at the offices of the Company:

- The Memorandum of Incorporation and Articles of Association of Panoro
- All reports, letters, and other documents, historical financial information, valuations, and statements prepared by any expert at the Company's request any part of which is included or referred to in the Prospectus
- The audited financial accounts of the Company for the last two financial years
- Historical financial information for Panoro's subsidiaries for the last two financial years
- This Prospectus

Third party statements

The Company confirms that when information in this Prospectus has been sourced from a third party it has been accurately reproduced and as far as the Company is aware and is able to ascertain from the information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

2. RISK FACTORS

2.1 MARKET RISKS

2.1.1 The Panoro Group experiences strong competition

The oil and natural gas industry is capital intensive and the Panoro Group operates in an environment in which many other companies have greater financial and technical resources than the Panoro Group. These other companies include major integrated oil and natural gas producers and numerous other independent oil and natural gas companies and individual producers and operators.

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 its future industry partners and joint operators and its ability to select and evaluate suitable properties and to consummate transactions in a highly competitive environment.

2.1.2 Risks associated with emerging and developing markets generally

Investors in emerging markets such as Nigeria, Republic of Congo, Brazil and Gabon should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant legal, fiscal, economic and political risks. Accordingly, investors should exercise particular care in evaluating the risks involved in an investment in the Company and must decide for themselves whether, in the light of those risks, their investment is appropriate. Generally, investment in emerging and developing markets is suitable only for sophisticated investors who fully appreciate the significance of the risks involved. Investors are urged to consult with their own legal and financial advisers before making an investment.

2.1.3 The countries in which the Panoro Group operates face political, economic, fiscal, legal, regulatory and social uncertainties which could have a material adverse effect on the Company's business, financial condition and results of operations

The Company's operations are exposed to the political, economic, fiscal, legal, regulatory and social environment of the countries in which it operates, including Nigeria, offshore Nigeria and São Tomé & Príncipe, Republic of Congo, Brazil and Gabon. The Company's business involves a high degree of risk which a combination of experience, knowledge and careful evaluation may not overcome. These risks include, but are not limited to, corruption, civil strife or labour unrest, armed conflict, terrorism, limitations or price controls on oil exports and limitations or the imposition of tariffs or duties on imports of certain goods. The operations of the Company in certain developing countries expose it to potential civil unrest and political or currency risk.

2.1.4 The countries in which the Panoro Group operates suffer from crime and governmental or business corruption which could have an adverse effect on the Company's business, financial condition and results of operations

The Company operates and conducts business in countries or regions of West Africa and South America which experience high levels of criminal activity and governmental and business corruption. Oil and gas companies operating in West Africa may be particular targets of criminal or terrorist actions. Criminal, corrupt or terrorist action against the Company, its properties or facilities could have a material adverse effect on the

Company's business, results of operations or financial condition. In addition, the fear of criminal or terrorist actions against the Company could have an adverse effect on the ability of the Company to adequately staff and/or manage its operations or could substantively increase the costs of doing so.

2.1.5 Underdeveloped infrastructure in the countries in which the Panoro Group operates could have an adverse effect on the Company's business, financial condition and results of operations

Underdeveloped infrastructure and inadequate management of such infrastructure has led to regular electricity outages and water cuts in many states, in particular in West Africa. Inadequate and unreliable electricity supply has hindered investment in such countries, resulting in underperformance in various important sectors. The unstable pricing, and possible scarcity, of fuel for power generation also increases the operational challenges businesses face, adding to the potential fluctuation of overheads.

2.1.6 Uncertainties in the interpretation and application of laws and regulations in the jurisdictions in which the Company operates may affect the Panoro Group's ability to comply with such laws and regulations which may increase the risks with respect to the Panoro Group's operations

The courts in the jurisdictions in which the Company operates may offer less certainty as to the judicial outcome or a more protracted judicial process than is the case in more established economies. Businesses can become involved in lengthy court cases over simple issues when rulings are not clearly defined, and the poor drafting of laws and excessive delays in the legal process for resolving issues or disputes compound such problems.

2.2 OPERATIONAL RISKS

2.2.1 The Panoro Group's oil and natural gas production could vary significantly from the reports from independent reserve engineer firms

The Group partly bases its investment plans on reserve reports, prepared by the independent reserve engineer firm Gaffney Cline & Associates for reserves. Such reports are also obtained at least annually to establish the expected production profiles for the fields in production, and the expected economic lifetime of the fields. Any reduction in reserves might lead to a write down of field investments due to impairment tests and increases in future depreciations.

2.2.2 The Panoro Group may not be able to discover new reserves

Failure to develop its fields as planned may lead to a decline in the Company's reserves.

The Company intends to continue to explore for further reserves in its licence areas and seeks to add new reserves to its reserve base. However, the Company cannot assure investors that its exploration programmes will be successful. Except to the extent the Company completes successful exploration and development projects or acquires properties containing proven reserves, or both, the Company's reserves will decline as its natural gas and liquid hydrocarbons are produced and its reserves are depleted. The Company's future production is highly dependent upon the Company's ability to develop its existing reserve base and, in the longer term, finding or acquiring additional reserves. If the Company is unsuccessful in developing its current reserve base and if the Company fails to add new reserves through exploration or acquisitions, its total proved reserves

will decline, which would adversely affect the Company's business, financial condition, prospects or the market price of the Shares.

Exploratory drilling involves numerous risks, including the risks of unexpected drilling conditions, abnormal pressure or other irregularities in geological formations, equipment failures or accidents, mechanical difficulties, adverse weather conditions, difficulty complying with legal, governmental or licensing requirements, suspension or termination of licences and shortages or delays in the availability of drilling rigs and equipment deliveries.

In addition to drilling in project areas with challenging environmental conditions, the Company may drill its wells to depths below 4.5 kilometres and/or under a layer of salt. Accordingly, the Company's drilling activity in respect of any particular well, project area, field or licence area, or in its entirety, may fail to result in commercial discoveries of hydrocarbons.

2.2.3 Technical risk in development of oil fields and oil production

The development of oil fields in which the Company participates is associated with significant technical risk and uncertainty with regards to production start. The risks include – but are not limited to - cost overruns, production disruptions and delays compared to initial plans established. Some of the most important risk factors are related to the determination of reserves and their recoverability and the planning of a cost efficient and suitable production method. There are also technical risks present in the production, which may cause cost overruns, failed investment and destruction of wells and reservoirs.

2.2.4 Estimates for abandonment costs

When the production from an oil field cease, the Company is generally obliged to shut in wells and remove installations. Provisions are based on the best available estimates, based on today's technology and today's prices for services, equipment and manpower.

2.2.5 Permits and licenses

Significant parts of the Company's operations require licenses and permits from various governmental authorities. There can be no assurance that the Company will be able to obtain all necessary licenses and permits that may be required to carry out exploration and development at its projects. If the present permits and licenses are terminated or withdrawn, such events could have material negative effect on the Company's business, financial condition, prospects or the market price of the Shares.

2.2.6 Governmental regulations

The oil and gas industry in general is subject to extensive government policies and regulations, which result in additional cost and risk for industry participants. The Panoro Group's international operations are subject to various laws and regulations in countries in which it operates, including laws and regulations relating to the equipment and operation of drilling units, currency conversions and repatriation, oil and natural gas exploration and development, taxation of earnings and earnings of expatriate personnel, the use of local employees and suppliers by foreign contractors and duties on the importation and exportation of units and other equipment. Governments in some foreign countries have become increasingly active in regulating and controlling the ownership of concessions and companies holding concessions, the exploration for oil and natural gas and other aspects of the oil and natural gas industries in their countries. In some areas of the world, this governmental activity has adversely affected the amount of exploration

and development work done by major oil and natural gas companies and may continue to do so.

Failure to comply strictly with applicable laws, regulations, local practices and permitting requirements may result in loss, reduction or expropriation, the imposition of additional local or foreign parties as joint venture partners, enforcement actions, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in rig operations or in the exploration or development of properties may be required to compensate those suffering loss or damage by reason of the activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations. Amendments to current laws, regulations and permits governing operations and activities of rig and exploration companies, or more stringent implementation thereof, could have a material adverse impact on the Company.

Operations in less developed countries can be subject to legal systems which are not as mature or predictable as those in more developed countries, which can lead to greater uncertainty in legal matters and proceedings. This could result in risks such as;

- potential difficulties in obtaining effective legal redress in the courts of such jurisdictions, whether in respect of a breach of law or regulation, or in an ownership dispute;
- a higher degree of discretion on the part of governmental authorities;
- the lack of judicial or administrative guidance on interpreting applicable rules and regulations;
- inconsistencies or conflicts between and within various laws, regulation, decrees, orders and resolutions; and
- relative inexperience of the judiciary and courts in such matters.

In certain jurisdictions the commitment of local business entities, government officials and agencies and the judicial system to abide by legal requirements and negotiated agreements may be more uncertain. In particular, agreements may be susceptible to revision or cancellation and legal redress may be uncertain or delayed. There can be no assurance that joint ventures, licenses, license applications or other legal arrangements will not be adversely affected by the actions of government authorities or others and the effectiveness of and enforcement of such arrangement in these jurisdictions cannot be assured.

2.2.7 Title to properties

The Company conducts title reviews in connection with its principal properties as it believes are commensurate with the values of such properties. These reviews may not be sufficient to conclusively determine title. Any successful third party challenge of the Company's title to principal properties could have material negative effect on the Company's business, financial condition, prospects or the market price of the Shares.

2.2.8 Commodity price volatility

The oil and gas industry has been subject to considerable price volatility, over which companies have little control, and a material decline in prices could result in a decrease in the Company's production revenue. The oil and gas industry has inherent business risks and there is no assurance that products can continue to be produced at economical

rates or that produced reserves will be replaced. Fluctuations in prices and currency exchange rates, as well as changes in production volumes, are daily risks in the industry.

2.2.9 Environmental risks

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions and state and municipal laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require Panoro Energy to incur costs to remedy such discharge. No assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect Panoro Energy's financial condition, results of operations or prospects.

The Company is uncertain as to the amount of future operating and capital expenses that will be required to comply with enhanced environmental regulations in the areas where it operates. Such expenses could have material negative effect on the Company's business, financial condition, prospects or the market price of the Shares.

2.2.10 Reliance on operations and key personnel

For the assets that the extent that the Company is not the operator, it will be dependent upon other guarantors or third parties operations for the timing of activities and will be largely unable to control the activities of such operators. In addition, the Company's success depends, to a significant extent, upon management and key employees. The loss of key employees could have a negative effect on the Company. Attracting and retaining additional key personnel will assist in the expansion of the Company's business. The Company faces and will continue to face significant competition for skilled personnel. There is no assurance that the Company will successfully attract and retain personnel required to continue to expand its business and to successfully execute its business strategy.

2.2.11 Joint operating agreements

In West Africa the subsidiaries of Panoro Energy are operating under international standard joint operating agreements where the liability clause set forth the liabilities of each contractor's group member. Each party member of a contractor group is liable in accordance with the percentage interests it holds in the joint venture and the licence. The operator acts at cost with its liability being limited to its gross negligence.

2.3 FINANCIAL RISKS

2.3.1 Funding and liquidity risk

The Company may be unable to raise sufficient funds through public or private financing, strategic relationships and/or other arrangements to meet its ongoing or 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.

There can be no assurance that any funding will be available on sufficiently attractive terms. Furthermore, any debt financing, if available, may involve restrictive covenants. If the financing available to the Company is insufficient to meet its financing needs, it may be forced to reduce or delay capital expenditures, sell assets or businesses at unanticipated times and/or at unfavourable prices or other terms, seek additional equity capital or restructure or refinance its debt. There can be no assurance that such measures would be successful, would be adequate to meet the Company's financing needs or would not result in the Company being placed in a less competitive position.

Credit markets worldwide experienced severe reductions in liquidity and term funding in the aftermath of the global financial crisis in 2008 and 2009. Further, certain countries in Europe currently have significant sovereign debt levels and/or fiscal deficits which have led to uncertainties in the capital and credit markets in relation to those countries. These concerns have led to significant volatility in certain markets and also to significant exchange rate volatility, especially with respect to the Euro and U.S. dollar. These or similar disruptions and volatility in the credit or debt markets could adversely affect the Company's access to capital and may increase the Company's funding costs, which could negatively impact the Company's results of operations and financial condition.

2.3.2 Credit risk

The Company 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. Credit losses incurred y the Company and have a material adverse effect on the Company's business, financial condition, results of operations and cash flow.

2.3.3 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 US dollar (USD), the Brazilian Real (BRL) and the Pound Sterling (GBP).

Because the Company 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 USDfor reporting purposes. Decreases in the value of its operating subsidiaries' functional currencies against the USD tend to reduce those operating subsidiaries' contributions in USD terms to the Company's business, financial condition, results of operations and cash flow.

In addition to currency translation risk, the Company is exposed to fluctuations in the currencies in which its costs and expenses are incurred. Decreases in the value of its operating subsidiaries' functional currencies against other currencies in which costs and

expenses are incurred will increase operating subsidiaries' costs and expenses and negatively impact their operating margins. Management has set up a policy for management of foreign exchange risk, including utilization of financial instruments such as cross currency interest rate swaps to hedge the forward foreign currency risk. However there can be no assurance that such measures are sufficient to mitigate the Company's foreign exchange risk, and negative changes in exchange rates may materially and adversely affect the Company's business, financial condition, results of operations and cash flow.

2.3.4 Interest rate risk

The Company currently has interest rate risk exposure arising from changes in USD, BRL (Brazil only) and NOK interest rates on long-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed-rates expose the Company to fair value interest rate risk. Which currencies that the Company is exposed to may change from time to time.

To manage interest rate risk, management retains a proportion of fixed to floating rate borrowings within limits approved by the Board of Directors, through obtaining a mix of fixed and floating rate term debt, and by entering into interest rate swaps. However there can be no assurance that such measures are sufficient to mitigate the Company's interest rate risk exposure, and interest rate risk exposure may as a consequence materially and adversely affect the Company's business, financial condition, results of operations and cash flow.

2.3.5 Commodity price risk

The nature of the Company's industry is subject to considerable price volatility, over which the Company holds little control, and a material decline in commodity prices could result in a decrease in our production revenue. To manage this risk, the Company strives to keep a balance between fixed and floating price contracts, however there can be no assurance that such measures are sufficient to mitigate this risk. A decline in commodity prices may as a consequence materially and adversely affect the Company's business, financial condition, results of operations and cash flow

2.3.6 Change of Control Risk

The Company may in certain situations need to obtain consents and approvals from governmental authorities and other third parties in connection with change of ownership and corporate restructurings. A number of the Company's contracts have change of control or pre-emption clauses. There can be no assurance that such consents will be granted, or that they will be granted free of conditions, in each case.

As a result of the Merger there are certain change of control provisions that need to be managed by the Company. As a result there can be no guarantee that the business will be as described herein.

2.4 RISKS RELATED TO THE SHARES

2.4.1 Volatility of share price

The Company's Share price may experience substantial volatility. The trading price of the Shares could fluctuate significantly in response to, inter alia, the financial situation of the Company, variations in operating results, response to quarterly and annual reports issued by the companies, changes in earnings estimates by analysts, adverse business developments, changing conditions in the oil and gas industry at large, changes in

general market or economic outlook, interest rate changes, foreign exchange rate movements, changes in financial estimates by securities analysts, matters announced in respect of major customers or competitors or changes to the regulatory environment in which the Company operates or rumours and speculation in the market. The market price of the Shares could decline due to sales of a large number of shares in the Company in the market or the perception that such sales could occur. Such sales could also make it more difficult for the Company to offer equity securities in the future at a time and at a price deemed appropriate.

2.4.2 Dilution

The Company may in the future see the need of additional equity investment in relation to financing capital intensive projects, or related to unanticipated expenses or liabilities. This may lead to a future need of additional issuance of shares in the Company. The Company can not guarantee that the current shareholders ownership may not be diluted, in the event that the Company cannot obtain financing on desirable terms. For reasons relating to U.S. securities laws, and the laws in certain other jurisdictions, or other factors, U.S. investors, and investors in such other jurisdictions, may not be able to participate in a new issuance of shares or other securities and may face dilution as a result.

2.4.3 Limitations on dividends

The Company currently anticipates that it will retain all future earnings, if any, to finance the growth and development of its business. The Company does not intend to pay cash dividends in the foreseeable future. Any payment of cash dividends will depend upon the Company's financial condition, capital requirements, earnings and other factors deemed relevant by its Board and general meeting of shareholders.

3. RESPONSIBILITY FOR THE PROSPECTUS

3.1 THE BOARD OF DIRECTORS OF PANORO ENERGY

The Board of Directors of Panoro Energy accepts responsibility for the information contained in this Prospectus. The Board of Directors hereby declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of our knowledge, in accordance with the facts and contains no omissions likely to affect its import.

16 September 2010

Dr Phil Vingoe	Katherine Hatlen Støvring	Ragnar Thor Grundtvig Søegaard
Chairman	*Board member*	*Board member*

Tord Pedersen	Christine M.K. Wheeler
Board member	*Board member*

4. NOTICE REGARDING FORWARD-LOOKING STATEMENTS

This Prospectus includes "forward-looking" statements, including, without limitation, projections and expectations regarding the Company's future financial position, business strategy, plans and objectives. When used in this document, the words "anticipate", "believe", "estimate", "expect", "seek to" and similar expressions, as they relate to the Company, its subsidiaries or its management, are intended to identify forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Company and its subsidiaries, or, as the case may be, the industry, to materially differ from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Company's present and future business strategies and the environment in which the Company and its subsidiaries will operate. Factors that could cause the Company's actual results, performance or achievements to materially differ from those in the forward-looking statements include but are not limited to:

- the competitive nature of the markets in which the Company operates,
- global and regional economic conditions,
- government regulations,
- changes in political events, and
- force majeure events

Some important factors that could cause actual results to differ materially from those in the forward-looking statements are, in certain instances, included with such forward-looking statements and in the section entitled "Risk Factors" (Section 2) in this Prospectus.

Given the aforementioned uncertainties, prospective investors are cautioned not to place undue reliance on any of these forward-looking statements.

5. THE MERGER AND LISTING

5.1 THE MERGER

On 27 January 2010, a business combination agreement ("BCA") was entered into with the shareholders in Pan Group regarding the merger of Pan Group and the Company. The BCA had been developed into a merger plan signed by the board of directors of the Pan Group and the Company on 26 March 2010**.**

The general meetings of Panoro and the Pan Group approved the Merger on 26 April 2010.

The resolutions passed by the respective general meetings regarding approval of the merger plan were filed with the Register of Business Enterprises by Panoro and the Pan Group in accordance with section 13-14 of the Norwegian Public Limited Companies Act, and announced by the register on 27 April 2010.

5.2 THE LISTING AND ADMISSION TO TRADING OF THE LISTING SHARES

The Shares in Panoro were approved for listing in the board meeting of Oslo Børs on 27 May 2010. A total of 163,947,081 shares were paid in April 2010 and issued on 29 June 2010 of which 68,308,160 were listed on Oslo Børs on 8 June 2010. However, the Listing Shares, comprising in total 95,638,921 Shares, have been non-listed shares issued under a separate ISIN pending completion of a listing prospectus for the Listing Shares.

The dilutive effect in connection with the Listing will be 58%.

The Listing Shares will be admitted to trading on Oslo Børs following approval and publication of this Prospectus. Panoro expects the Listing Shares to be admitted to trading on or about 15 September 2010. At the same time, the Listing Shares will be transferred to the same ISIN as other Shares, being ISIN NO 001 0564701.

The Listing Shares have been created under the Norwegian Public Limited Liability Companies Act and registered in book-entry form with the VPS. The Listing Shares are in every respect equal to the already listed Shares and all Shares carry equal voting and dividend rights.

The Listing Shares gave dividend rights from the time the share capital increase in connection with the issuance of the Listing Shares was registered in the Norwegian Register of Business Enterprises, which took place on 29 June 2010.

The Listing Shares were issued partly pursuant to the Merger, partly pursuant to the Private Placement, both approved in an extraordinary general meeting of Panoro on 26 April 2010 pursuant to the following resolutions:

<u>Merger resolution:</u>

"The general meeting approves the merger plan between the company and Pan Petroleum Holding AS

(i) The proposed merger between New Brazil Holding ASA as the acquiring company and Pan-Petroleum Holding AS as the transferring company is approved in accordance with the board's proposed merger plan. Upon implementation of the merger, the capital increase described below shall take place.

(ii) The share capital of the company is increased by NOK 126,977,783.78 by new subscription for 86,942,991 shares, each with a nominal value of NOK 1,460471768.

(iii) The number of shares and subscription price stated above has been calculated on

the basis that the total number of shares in NEC is 468 154 566 and that the issue implies that shares will be issued in NBH equivalent to the number of shares in NEC at the time with a reserve split of 10-1. If further shares in NEC are issued before the demerger is implemented, the number of shares issued in NBH in the demerger will increase accordingly, and the nominal value will be reduced, as stated in the demerger plan. This will also change the number of shares to be issued in merger, in accordance with the principles as described in further detail in item 4.2 of the merger plan.

(iv) *The new shares are issued to the shareholders in Pan-Petroleum Holding AS as consideration in connection with the merger between New Brazil Holding ASA and Pan-Petroleum Holding AS.*

(v) *The total subscription amount is NOK 1,090,440,000 representing a subscription amount of ca NOK 12,542 per share. Subscription amount in excess of nominal value is treated as subscription premium in accordance with applicable accounting principles.*

(vi) *As share deposit, Pan-Petroleum Holding AS's assets, rights and obligations are transferred in their entirety at the time of registration of the capital increase in the Register of Business Enterprises.*

(vii) *The shares are deemed to be subscribed for when the merger plan is approved in the general meeting of Pan-Petroleum Holding AS, cf. section 13-3 (3) of the Public Limited Companies Act.*

(viii) *The new shares give right to dividend and other shareholders' rights from the date when the capital increase is registered in the Register of Business Enterprises.*

(ix) *Article 4 of the articles of association is amended to the reflect the share capital and number of shares after the capital increase.*

(x) *The new shares shall be registered in the acquiring company's VPS register as soon as possible after the merger is registered as completed in the Register of Business Enterprises."*

<u>Private Placement resolution:</u>

(i) *"The share capital in New Brazil Holding ASA is increased by up to NOK 44 087 898 by issuing up to 30 187 436 new shares, each with a nominal value of NOK 1.460471768 per share.*

(ii) *The shares are subscribed for at a price of ca NOK 12.5963 per share (post reversed split). The minimum subscription and allocation amount is an amount equivalent to EUR 50,000.*

(iii) *The number of shares and subscription price stated above is calculated based on the assumption that the total number of shares in NBH after the merger shall be 133,758,447. This number is in turn based on the current number of shares in NEC of 468 154 566 (registered share capital plus shares to be issued in the repair issue). Upon the implementation of the demerger, a number of shares in NBH equivalent to the number of shares in NEC at that time shall be issued, but with a reserve split of 10-1. If further shares in NEC are issued before the demerger is carried out, the number of shares in NHB in the demerger will also increase and the nominal value will be reduced as stated in the demerger plan. This will also result in a change of the number of shares issued in the merger, as further described in decision 5, item (iii). The number of shares and subscription price in the capital increase shall then also be adjusted so that the value per share and the total ownership interest remains unchanged.*

(iv) The shares are awarded to the investors who ordered and were awarded shares in the bookbuilding carried out 15 March 2010. The investors' names and number of shares awarded are stated in Schedule 2 to the minutes. The shareholders' pre-emption rights pursuant to section 10-4 of the Public Limited Companies Act are thus derogated from.

(v) Subscription for the new shares shall take place in the minutes of general meeting.

(vi) The subscribers shall receive a cash subscription commission of 5% of the amount subscribed for. It may be agreed with each subscriber that he shall receive shares for the entire or parts of the amount.

(vii) Payment of awarded shares shall take place no later than two bank days after the company has confirmed in writing to the subscribers that the terms in (ix) are fulfilled or the terms have been set side in writing by each individual subscriber, however no later than 2 July 2010. Payment shall take place to the company's bank account no. __________.

(viii) The new shares shall have right to dividend from the registration of the new shares in the Register of Business Enterprises.

(ix) The capital increase is subject to the following conditions:

a. That the demerger of NEC is implemented,

b. That the Oslo Stock Exchange, no later than 30 June 2010, has approved stock exchange listing of the shares in NBH, and

c. That the merger as mentioned in item 5 is implemented no later than 30 June 2010.

The shares shall be issued and the registration in the Company Register shall take place when all conditions above are all met provided however that each subscriber may waive the conditions where after subsequent capital increases may take place up to the maximum amount of shares.

(x) Article 4 of the articles of association is amended in accordance with the above by implementation of the capital increase."

The Private Placement was approved at a point in time when Norse Energy was the sole shareholder of Panoro and the shareholder's pre-emptive right pursuant to section 10-4 of the Public Limited Companies Act was derogated from in agreement with Norse Energy to achieve an increased investor base for the company.

To Panoro's knowledge no Shares are listed on any other authorised or non-authorised market place other than Oslo Børs.

Costs attributable to the Listing will be borne by the Company. The total costs are expected to amount up to approximately NOK 4 million, which include cost related to fees to the Managers, Oslo Børs, printing and distribution of this Prospectus, costs to legal advisors and the Company's auditor.

5.3 ADVISORS AND AUDITORS

Managers

The Managers for the Listing is Arctic Securities ASA and Pareto Securities AS.

Legal Advisor

The Company’s legal advisor is Advokatfirmaet Selmer.

Independent Auditor

The Company's auditor is Ernst & Young AS.

6. UNAUDITED CONSOLIDATED FINANCIAL INFORMATION

6.1 PANORO GROUP

6.1.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The selected unaudited historical consolidated financial data for Panoro Group set forth in this section has been extracted from the Panoro Group's interim financial statements for the six months ended 30 June 2010. These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) and the accounting principles that are disclosed in note 2 of these interim financial statements.

The selected unaudited historical financial data set forth below may not contain all of the information that is important to a potential investor of shares in the Panoro Group. As a result, the data should be read in conjunction with the relevant interim financial statements and the notes to those statements that can be referred to in appendix 2.

Comparatives to the interim financial statements represent the historical carved out balances and transactions of the Brazil Group as disclosed in section 6.2 below. This treatment of the comparatives is in line with the principles set out IFRS 3 (Revised) which have been disclosed in note 2.1 to the interim financial statements in appendix 2.

6.1.2 FUNDING AND TREASURY POLICIES AND OBJECTIVES

The Panoro Group has adopted the funding and treasury policies and objectives as Norse Energy and is described in the Annual Report 2009 (note 22) for Norse Energy, attached as Appendix 3.

6.1.3 BASIS OF PREPARATION

The following tables present data extracted from selected financial information for Panoro Group as of 30 June 2010 with quarterly comparative information as disclosed in the interim financial statement which can be referred in Appendix 2.

Unaudited Consolidated Financial Statements (USD 000)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Q2 2009	Q1 2010	Q2 2010		YTD 2010	YTD 2009
(Unaudited) - USD 000				*(Unaudited) - USD 000*	
7,781	10,236	9,695	Oil and Gas revenue	19,931	14,003
-	251	-	Other income	251	-
7,781	**10,487**	**9,695**	**Total revenues and other income**	**20,182**	**14,003**
839	954	1,164	Production costs	2,118	1,886
-	81	4,659	Exploration related costs	4,740	7,355
1,654	2,271	2,786	General and administrative costs	5,057	3,571
-	780	4,678	Merger and restructuring costs	5,458	-
5,288	**6,401**	**(3,592)**	**EBITDA**	**2,809**	**1,191**
1,690	1,811	1,966	Depreciation	3,777	3,170
3,598	**4,590**	**(5,558)**	**EBIT - Operating income/(loss)**	**(968)**	**(1,979)**
-	-	2,931	Gain on acquisition of subsidiary	2,931	-
(3,375)	(4,103)	(5,678)	Net finance income/(costs)	(9,781)	(6,008)
31,421	(2,513)	(47)	Net foreign exchange gain/(loss)	(2,560)	32,209
-	-	(577)	Warrants effect - gain/(loss)	(577)	-
31,644	**(2,026)**	**(8,929)**	**Income/(loss) before tax**	**(10,955)**	**24,222**
(15,397)	377	2,008	Income tax benefit/(expense)	2,385	(7,961)
16,247	**(1,649)**	**(6,921)**	**Net income/(loss) for the period**	**(8,570)**	**16,261**
13,526	(2,175)	(10)	Exchange differences arising from translation of foreign operations	(2,185)	13,765
13,526	**(2,175)**	**(10)**	**Other comprehensive income/(loss) for the period (net of tax)**	**(2,185)**	**13,765**
29,773	**(3,824)**	**(6,931)**	**Total comprehensive income/(loss) for the period**	**(10,755)**	**30,026**
			Net income /(loss) for the period attributable to:		
16,247	(1,695)	(5,502)	Equity holders of the parent	(7,197)	16,261
-	46	(1,419)	Non-controlling interests	(1,373)	-
			Total comprehensive income/(loss) for the period attributable to:		
29,773	(3,217)	(5,151)	Equity holders of the parent	(8,368)	30,026
-	(607)	(1,780)	Non-controlling interests	(2,387)	-
			Earnings per share		
0.50	(0.03)	(0.08)	(USD) – Basic and diluted for income/(loss) for the period attributable to equity holders of the parent	(0.11)	0.56

Unaudited Condensed consolidated Statements of Financial Position (USD 000)

Amounts in *USD 000* (Unaudited)	30-Jun 2010	31-Mar 2010	31-Dec 2009
Non-current assets			
Licenses and exploration assets	190,375	124,409	126,300
Production assets and equipment	102,856	106,380	111,300
Property, furniture, fixtures and office equipment	1,460	1,076	2,806
Deferred tax assets	27,411	24,819	22,564
Other non-current financial assets	-	301	308
Other non-current assets	1,237	1,251	1,791
Total Non-current assets	***323,339***	***258,236***	***265,069***
Current assets			
Trade and other receivables	15,383	14,709	14,715
Cash and bank balances	56,347	10,239	13,105
Total current assets	***71,730***	***24,948***	***27,820***
Assets classified as held for sale	30,000	-	-
Total Assets	***425,069***	***283,184***	***292,889***
Equity			
Share capital	38,141	76,692	76,692
Other equity	183,972	(10,842)	(7,625)
Total Equity attributable to equity holders of the parent	***222,113***	***65,850***	***69,067***
Non-controlling interests	-	29,477	30,084
Total Equity	***222,113***	***95,327***	***99,151***
Long-term liabilities			
Long-term interest bearing debt	100,665	38,284	-
Deferred tax liabilities	11,731	-	-
Liabilities related to w arrants	577	-	-
Other long-term liabilities	24,267	20,756	20,928
Total long-term liabilities	***137,240***	***59,040***	***20,928***
Short-term liabilities			
Short-term interest bearing debt	29,817	39,499	80,887
Loan payable to Norse Energy Corporation ASA	-	63,433	57,946
Accounts payable, accruals and other liabilities	35,899	25,885	33,977
Total short-term liabilities	***65,716***	***128,817***	***172,810***
Total Liabilities	***202,956***	***187,857***	***193,738***
Total Equity and Liabilities	***425,069***	***283,184***	***292,889***

Unaudited Consolidated Cash flow Statements (USD 000)

	30 June 2010 *USD 000* (Unaudited)	30 June 2009 *USD 000* (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income / (loss) for the period before tax	(10,955)	24,222
Adjusted for:		
Depreciation	3,761	3,170
Market adjustments for warrant effects	577	-
Non-cash exploration related costs	-	7,300
Gain on sale of property	(251)	-
Net finance costs	9,781	6,008
Other adjustments -including working capital	(20,108)	(61,770)
Net cash flows from operating activities	**(17,195)**	**(21,070)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in Exploration, production and other assets	(954)	(9,546)
Proceeds from sale of property	1,421	-
Net cash acquired at acquisitions	4,304	-
Net cash flows from investing activities	**4,771**	**(9,546)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from issuance of shares	54,851	30,000
Net interests paid	(8,417)	(2,840)
Financial liabilities raised / (repaid)	9,135	(4,117)
Net cash flows from financing activities	**55,569**	**23,043**
Foreign exchange differences	97	2,550
Change in cash and cash equivalents during the period	43,242	(5,023)
Cash and cash equivalents at the beginning of the period	10,655	7,597
Cash and cash equivalents at the end of the period	**53,897**	**2,574**

Unaudited Consolidated changes in equity (USD 000)

For six months ended 30 June 2010 Amounts in *US$000*	Issued capital	Share premium	Retained earnings	Currency translation adjustment	Total	Non-controlling interest	Total equity
	Attributable to equity holders of the parent						
At 1 January 2010 (unaudited)	76,692	-	(30,005)	22,380	69,067	30,084	99,151
Income / (loss) for the period	-	-	(1,695)	-	(1,695)	46	(1,649)
Other comprehensive income	-	-	-	(1,522)	(1,522)	(653)	(2,175)
Total Comprehensive income	-	-	(1,695)	(1,522)	(3,217)	(607)	(3,824)
At 31 March 2010 (unaudited)	76,692	-	(31,700)	20,858	65,850	29,477	95,327
Income / (loss) for the period	-	-	(5,502)	-	(5,502)	(1,419)	(6,921)
Other comprehensive income	-	-	-	351	351	(361)	(10)
Total Comprehensive income	-	-	(5,502)	351	(5,151)	(1,780)	(6,931)
Re-organisation of share capital on de-merger	(76,692)	-	-	-	(76,692)	-	(76,692)
Issue of shares - for de-merger and acquisition of Pan AS	31,372	151,883	-	-	183,255	(27,697)	155,558
Issue of shares - for cash (net)	6,769	48,082	-	-	54,851	-	54,851
At 30 June 2010 (unaudited)	**38,141**	**199,965**	**(37,202)**	**21,209**	**222,113**	**-**	**222,113**

For six months ended 30 June 2009 Amounts in *US$000*	Issued capital	Share premium	Retained earnings	Currency translation adjustment	Total	Non-controlling interest	Total equity
	Attributable to equity holder of the parent						
At 1 January 2009 (unaudited)	45,257	-	(40,141)	1,760	6,876	-	6,876
Income / (loss) for the period	-	-	14	-	14	-	14
Other comprehensive income	-	-	-	239	239	-	239
Total Comprehensive income	-	-	14	239	253	-	253
At 31 March 2009 (unaudited)	45,257	-	(40,127)	1,999	7,129	-	7,129
Income / (loss) for the period	-	-	16,247	-	16,247	-	16,247
Other comprehensive income	-	-	-	13,526	13,526	-	13,526
Total comprehensive income for the pe	-	-	16,247	13,526	29,773	-	29,773
Dilution of shares to minority	41,221	-	-	-	41,221	26,950	68,171
At 30 June 2009 (unaudited)	**86,478**	**-**	**(23,880)**	**15,525**	**78,123**	**26,950**	**105,073**

6.2 BRAZIL GROUP

6.2.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The selected unaudited historical consolidated financial data for the Brazil Group set forth in this section has been carved out from Norse Energy's audited group financial statements for the financial years 2009, 2008 and 2007. These financial statements have been prepared in accordance with IFRS and the accounting principles that are found in the related Annual Reports for Norse Energy. For Annual Reports including auditor's reports for Norse Energy for 2009, 2008 and 2007, reference is made to appendix 3, 4 and 5.

The selected unaudited carved out financial data set forth below may not contain all of the information that is important to a potential investor of shares in the demerged company. As a result, the data should be read in conjunction with the relevant financial statements and the notes to those statements.

There have been no audit qualifications in connection with the 2007-2009 financial statements for Norse Energy. In the 2008 audit report, Deloitte draws attention to the Board of Directors discussion of the uncertainty concerning funding that was present at the time of the audit report, without qualifying its report, with the following wording: ";" Without qualifying our opinion, we draw attention to the information in the Board of Director's report related to the uncertainty concerning the Company's ability to secure funding of its capital expenditure program".

In Norse Energy do Brasil S.A. Auditors report for 2008, based on Brazilian GAAP Deloitte has drawn attention to the following:

. As described in note 2 b), in the preparation of its financial statements for the year ended December 31, 2008, the Company did not consider Technical Pronouncement CPC-02 "Effects of Exchange Rates Variations and Translation of Financial Statements", approved by the Federal Accounting Council (CFC) by means of Resolution 1120/08. This pronouncement requires that companies book their transactions based on their "Functional Currency" definition, even when this currency is different from that of the country of incorporation.

Norse Energy do Brasil S.A. had not implemented this pronunciation due to the fact that it came very late in the year, the subsidiary that their functional currency would change to BRL in 2009 and the fact that this would have no impact on the Norse Consolidated IFRS accounts.

. The financial statements have been prepared assuming that the Company will continue as a going concern. As of December 31, 2008, the Company has negative working capital of R$201,421 thousand (Company) and R$397,636 thousand (consolidated) - R$119,814 thousand (Company) and R$165,390 thousand (consolidated) as of December 31, 2007, which is in line with the Company's initial business plan. Management understands that shareholders will provide the funds required for the Company to continue as a going concern until its cash flow becomes balanced. In addition, as described in Note 11, discussions are being held with creditor financial institutions to renegotiate the current debts. To continue as a going concern, the Company depends on the ongoing financial support of its shareholders until its cash flow is balanced, and also on the favorable conclusion of discussions with creditor financial institutions. The financial statements herewith presented did not consider the adjustments and/or reclassifications that might result from the resolution of these uncertainties.

The September 2010 capital and liquidity in Brazil have been discussed in section 8 in this listing prospectus.

6.2.2 HISTORICAL FINANCIAL ACCOUNTS

The unaudited carved out consolidated financial statements included in this document are derived from the historical financial statements of Norse Energy and are presented as though the Brazil Group was a separate enterprise, based upon the structures in place during the periods covered. Accordingly, such information may not reflect what the results of operations, financial position and cash flows would have been had the Brazil Group been a separate, stand-alone entity during the periods presented and it may not be indicative of the results of operations, financial position and cash flows of the Brazil Group in the future.

The legal entity Panoro Energy ASA (established 28 April 20009) was acquired by Norse Energy in December 2009. The legal entity had no operations or activity in 2009. For audited financial information of Panoro Energy ASA for 2009 including auditor's report,

reference is made to Appendix 2. The following is a summary of the Statement of Financial Position of Panoro Energy ASA as of 31 December 2009:

Statement of Financial Position; Panoro Energy ASA	**(USD 000)**
Assets	31.12.2009
Current assets	
Cash and cash equivalents	173
Total assets	173
Equity and liabilities	
Equity	173
Total equity and liabilities	173

6.2.3 BASIS FOR PREPARATION

The following tables present data extracted from selected financial information for the Brazil Group as of and for each of the three years ended 31 December 2009, 2008 and 2007.

The unaudited carve out financial information is based on the segment information from the Norse Energy Annual Reports. The unaudited carved out financial information consists of the Brazil E&P segment in addition to the following allocations from the Norwegian parent in accordance with the demerger plan: USD 8 million in cash, the NEC01 bond loan with accrued interest, 40% of the NECJ warrant liability, cost accruals and allocated overhead costs.

Detailed specifications of the unaudited financial carved out financial statements, referenced to the Norse Energy Annual Reports 2007, 2008 and 2009 (Appendix 3, 4 and 5), are attached as Appendix 9. The specifications explain the links between the audited Norse Energy's financial statements for 2009, 2008 and 2007 and the unaudited carved out financial information that represent the historical financial information of the Brazil Group operations being demerged from Norse Energy.

Unaudited Carved out Consolidated Financial Statements (USD 000)

	2009 The Brazil Group Carved out	2008 The Brazil Group Carved out	2007 The Brazil Group Carved out
Oil and Gas revenue	34 650	73 551	46 621
Total revenue	34 650	**73 551**	**46 621**
Production costs	-4 002	-25 692	-23 221
Exploration and dry hole costs	-14 160	-22 937	-236
General and administrative expenses	-11 473	-15 918	-7 906
EBITDA	**5 015**	**9 004**	**15 258**
Depreciation	-6 809	-11 237	-24 151
Impairment	-13 679	-25 911	-26 159
Total operating expenses	**-50 123**	**-101 695**	**-81 673**
EBIT-Operating income/loss	**-15 473**	**-28 144**	**-35 052**
Interest revenue	3 249	4 660	2 142
Interest expense	-16 425	-16 359	-9 325
Foreign exchange gain/(loss)	24 649	5 828	6 544
Other financial income	283	2 400	-1 294
Net financial items	**11 756**	**-3 471**	**-1 933**
Net profit/(loss) before tax	-3 717	-31 615	-36 985
Income tax	-4 283	10 674	9 153
Profit /(Loss)after tax	**-8 000**	**-20 941**	**-27 832**

Unaudited Carved out consolidated Statements of Financial Position (USD 000)

	2009 The Brazil Group Carved out	2008 The Brazil Group Carved out	2007 The Brazil Group Carved out
Assets			
Non-current assets			
Licence and exploration assets	126 300	99 759	114 705
Deferred tax asset	22 564	10 105	0
Other non current assets	2 099	7 983	13 273
Field Investment and equipment	111 300	81 640	110 496
Furniture and fixtures	2 806	2 276	1 954
Total non current assets	**265 069**	**201 763**	**240 428**
Current assets			
Inventory	0	290	3 051
Accounts receivable and other short term assets	14 715	15 996	21 815
Cash and cash equivalents	17 105	14 891	10 489
Total current assets	**31 820**	**31 177**	**35 355**
Total assets	**296 889**	**232 940**	**275 783**
Equity and liabilities			
Equity	**105 015**	**67 568**	**91 957**
Long term liabilities			
Deferred tax liability	0	0	14 141
Other long term debt Brazil	20 928	23 416	22 561
Allocated 40 % of NEC J warrant liability	4 518	4 801	8 039
Total long term liabilities	**25 446**	**28 217**	**44 741**
Short term Interest bearing debt Brazil	80 887	78 952	74 727
Accounts payable and other current liabilities Brazil	33 977	10 492	15 130
Allocated accrued interest NEC01	2 703	2 198	3 117
Allocated accrued expenses	274	276	191
Allocated NEC01 bond loan	48 588	45 238	45 920
Total current liabilities	**166 428**	**137 156**	**139 085**
Total liabilities	**191 874**	**165 372**	**183 826**
Total equity and liabilities	**296 889**	**232 940**	**275 783**

Unaudited Consolidated Cash flow Statements (USD 000)

Consolidated Statement of Cash flows	2009	2008
Net cash flows from operating activities	8 111	144
Net cash flows from investing activities	-8 807	-18 285
Net cash flows from financing activities	-1 683	24 347
Effects of foreign currency and translation of foreign operations on cash balances	4 593	-1 804
Change in cash and cash equivalents during the period	2 214	4 402
Cash and cash equivalents at the beginning of the period	14 891	10 489
Cash and cash equivalents at the end of the period	17 105	14 891

Unaudited Consolidated changes in equity (USD 000)

At December 31,2007	**91,957**
Profit & Loss	-20,941
Group funding contributions	2,610
Currency translation adjustment and other	-6,059
At December 31,2008	**67,567**
Net income / (loss) for the year	-8,000
Currency translation adjustment and other	20,620
Equity issue (equity for debt from NEC)	24,828
At December 31,2009	**105,015**

6.3 PAN GROUP

6.3.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Historical financial information in this section for the Pan Petroleum Holdings (Cyprus) Limited ("**Pan Group**") has been extracted without material adjustments from the Group's annual financial statements, is presented in US dollars and has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS). The accounting policies can be referred to in note 2 to the annual financial statements of Pan Group which have been included in appendix 6 to this prospectus.

The selected information below may not contain all the information that is important to a potential investor of shares in the merged company. As a result, the information should be read in conjunction with the relevant financial statements and the notes to those statements which are included in this prospectus in appendix 6.

There have been no audit qualifications in connection with 2008 and 2009 financial statements of Pan-Petroleum. In 2008 and 2009 the auditors Ernst & Young Cyprus Limited draw attention to the note 1 to the financial statements concerning the Pan Group's ability to continue as a going concern due the circumstances present at the time of the audit report. The auditors drew attention to the following paragraph in their audit report:

"In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the Group's ability to continue as a going concern. The circumstances explained in note 1, indicate the existence of a material uncertainty which may cast significant doubt about the Group's and the Company's ability to continue as a going concern.

The financial statements do not include the adjustments that would result if the Group and the Company were unable to continue as a going concern."

6.3.2 BASIS OF PREPARATION

The following tables present the historical data without material adjustments, extracted from annual financial statements of Pan Group as of 31 December 2008 and 2009. The basis of preparation of and presentation of this information is consistent with the accounting policies and policies by the Panoro Group in the annual financial statements.

Audited consolidated statement of comprehensive income (USD 000)

	01-Jan to 31-Dec 2009	*28-Feb to 31-Dec 2008*
Total revenue	-	-
Administrative expenses	-9,674	-8,267
Impairment of intangible E&E assets	-24,489	-
Operating loss	-34,163	-8,267
Expenses relating to acquisition of minority share of subsidiary	-2,873	-
Finance income	67	222
Finance cost	-22	-134
Foreign exchange gain	477	49
Loss on ordinary activities before taxation	-36,514	-8,130
Income tax expense	-729	-255
Loss for the period	-37,243	-8,385
Other comprehensive *loss*:		
Foreign exchange movement in the period	38	-66
Total comprehensive loss for the period	-37,205	-8,451
Total comprehensive loss attributable to:		
Equity holders	-37,205	-8,451
Total comprehensive loss for the period	-37,205	-8,451

Audited consolidated statement of financial position (USD 000)

	31-Dec 2009	*31-Dec 2008*
Non-current assets		
Property, plant and equipment	373	60
Intangible E&E Assets	140,730	148,864
	141,103	148,924
Current assets		
Cash and cash equivalents	13,976	14,726
Trade and other receivables	4,181	35,965
	18,157	50,691
Total assets	159,260	199,615
Current liabilities		
Trade and other payables	3,475	7,424
Tax payable	903	233
	4,378	7,657
Non-current liabilities		
Deferred tax liability	37	-
	37	-
Total liabilities	4,415	7,657
Equity		
Share capital	535	535
Share premium	184,557	184,465
Accumulated losses	-30,219	-8,385
Translation reserve	-28	-66
	154,845	176,549
Minority Interest	-	15,409
Total equity	154,845	191,958
Total liabilities and equity	159,260	199,615

Audited consolidated cash-flow statement (USD 000)

	01-Jan to 31-Dec 2009	*28-Feb to 31-Dec 2008*
Cash flows from operating activities		
Loss before tax	-36,514	-8,130
Adjustments for non cash flow items:		
Finance income/ (expense)	-45	-88
Foreign exchange	38	-66
Depreciation	135	11
Impairment	24,489	-
Gain on acquisition of subsidiary	2,873	-
Shares capital issued, in lieu of consultancy fees	92	-
Share capital issued, not yet paid	-	-863
Net change in non-cash operating working capital items:		
Trade and other receivables	-3,011	-
Trade and other payables	-6,843	7,423
Cash generated from operations	-18,786	-1,713
Interest paid	-22	-134
Income taxes paid	-2	-22
Net cash from operating expenses	-18,810	-1,869
Cash flows from investing activities		
Interest received	21	222
Purchase of property, plant and equipment	-448	-71
Purchase of exploration assets	-16,355	-49,632
Cash acquired	-	531
Net cash used in investing activities	-16,782	-48,950
Cash flows from financing activities		
Proceeds from issue of share capital	34,843	65,544
Net cash used in financing activities	34,843	65,544
Net increase in cash and cash equivalents	-750	14,726
Cash and cash equivalents at beginning of period	14,726	-
Cash and cash equivalents at end of period	13,976	14,726

Audited consolidated statement of changes in equity (USD 000)

	Share Capital	*Share Premium*	*Accumulated Losses*	*Translation Reserve*	*Shareholders' Equity*	*Minority Interest*	*Total Equity*
Balance at 28 February 2008	0	0	0	0	0	0	0
Capital contributions during the period	535	184,465	0	0	185,000	0	185,000
Minority share of acquisition of assets	0	0	0	0	0	15,409	15,409
Foreign exchange movement in the period	0	0	0	-66	-66	0	-66
Total loss for the period	0	0	-8,385	0	-8,385	0	-8,385
Balance at 31 December 2008	535	184,465	-8,385	-66	176,549	15,409	191,958
Capital contributions during the period	0	92	0	0	92	0	92
Minority share of acquisition of assets	0	0	15,409	0	15,409	-15,409	0
Foreign exchange movement in the period	0	0	0	38	38	0	38
Total loss for the period	0	0	-37,243	0	-37,243	0	-37,243
Balance at 31 December 2009	535	184,557	-30,219	-28	154,845	0	154,845

6.4 TREND INFORMATION AND SIGNIFICANT CHANGES TO THE PANORO GROUP'S FINANCIAL POSITION SINCE 31 DECEMBER 2009

The Panoro Group operates predominantly in two business segments being the exploration and production of oil and gas, which is split by licence for management purposes and four geographical segments being Nigeria, Gabon, Congo and Brazil.

As of Q2 2010 the Company had production at the Manati field in Brazil only. Reference is made to section 7.1.1. Management discussion and analysis, with regard to material developments up until 30 June 2010.

Panoro Energy and its partners are currently discussing an amendment to the existing gas contract at Manati to include all additional gas volumes in the field, beyond the 23 billion cubic meters currently under the contract.

In line with Panoro Energy's desire to look at synergies for development of the reservoirs in the area, the Brazilian National Petroleum Agency ("ANP") has rejected the current separate development plans for Cavalo Marinho and Caravela (100% Petrobras), Estrela-do-Mar and Tubarão (100% Petrobras) in the BS-3 area. In particular, the ANP has requested the operator to consider inclusion of the B1 reservoir in the development. This request is aligned with Panoro Energy's preferred concept for development in this area. The partners are also discussing the possibility of redeveloping the Coral field as part of the BS-3 joint development. Petrobras has for the first time presented potential pre-salt possibilities within the Coral licence area.

On the three Brazil Round 9 blocks, there is currently a drill or drop decision in March 2011. Our ability to continue in the blocks and undertake the financial commitment of drilling a well is dependent on our ability to farm out these blocks to new partners. The Company is planning to attract a partner and a farm-out process will commence shortly

In mid-July 2010 operations commenced at the MKB field in Congo. This includes running a completion string, hydraulically fracturing the wells and pilot production testing. The Company has been discussing with a bank syndicate the opportunity to leverage on the MKB Congo operation with a ring fenced reserve based lending facility. Panoro expects to have a financing proposal completed by Q2-11, pending successful completion of the additional four well drilling program.

On the Aje field in Nigeria, the Company is assessing the impact of new PSDM interpretation, the lack of commercial agreements to transport and sell production, and likely cost increases. These factors may delay the movement of the project through the next gate.

The Ajapa field was classified as held for sale as of 30 June 2010, based on a signed sale and purchase agreement. The sale is contingent upon funding as well as government approval. The field is awaiting start-up for commercial production, however as Panoro Energy is divesting its interest the Company will not provide operational updates going forward.

The Company does not know of any other major trends, or events that have impacted or will impact the business.

6.5 SEGMENT INFORMATION

The Company currently sells all the natural gas and condensate (Manati field Brazil) to one buyer, Petrobras. An overview of the net sales is provided in the table below:

Year	Period	Panoro Energy (in USD 000)
Q2 2010	Six months	19,931
2009	Full year	34 650
2008	Full year	73 551
2007	Full year	46 621

The net sales for Panoro Energy for the years 2009, 2008 and 2007 correspond to the NEC ASA Annual Reports – Brazil E&P segment figures for these years. The Q2 2010 YTD figure correspond to the revenue from the Manati producing field in Brazil as reported by Panoro Group.

Since most of the natural gas reserves are found in association with oil, most of the proved natural gas reserves in Brazil are situated in offshore reservoirs. However, the distribution of natural gas reserves across the country does not follow the same pattern as the distribution of oil reserves. Oil reserves are concentrated in the southeastern region of the country, while natural gas reserves are concentrated primarily in the northern and northeastern regions, although there are considerable reserves in the Rio de Janeiro area. The growth of proved natural gas reserves in the São Paulo region between 2003 and 2004 was the result of a significant discovery in the Santos basin. Currently, the major part of natural gas produced in Brazil is from oil fields offshore, for which the infrastructure and transportation are costly. Increasing investments in infrastructure and discoveries of new non-associated natural gas fields will lead to the steady reduction of the natural gas volume that is flared or attributable to losses.

Upon the enactment of the Petroleum Law in 1997, exploration and production of oil and natural gas have been subject to free competition. Over the last 10 years there have been significant improvements in the market compared to the period when Petrobras had a monopoly over oil and natural gas reserves. Today there is significant competition in

the oil and natural gas industry in the context of bidding rounds for the concession areas. Approximately, 70 national and international companies were qualified for the ninth bidding round, of which 19 were newcomers. Additionally, there is competition for the acquisition of interests as a partner in existing blocks.

International and local companies bid for concession areas under free competition. Brazil has adopted a clear and transparent regulatory framework for oil and natural gas investor's which allows equal treatment between small and large companies. Upon the consolidation of the sector, the offer of blocks from companies already holding concessions rights has increased.

Currently, there are more than 60 economic groups operating in the exploration and production sector in Brazil, among them large companies, independent companies and small local companies. Almost all the large international oil and natural gas companies operate in Brazil, particularly in the offshore basins. Petrobras is the largest investor in the oil and natural gas sector, has the most financial and technical resources available and has the most extensive experience in this sector.

On the other hand, the Brazilian government has implemented a regulatory environment that also permits small companies to operate in mature onshore basins. The oil and natural gas industry is cyclical and from time to time we face a lack of equipment, spare parts, insurance or services due to increased competition for these assets and services. During these periods, the costs and the delivery time for these assets and services, which are provided by third parties, increase. In light of the increase in the levels of exploration and production resulting from the high prices of oil and natural gas, the demand for assets and services in the oil industry increased over the last few years, and the costs of these assets and services, have also increased. Specifically, there is a lack of rigs for the drilling of deep oil wells in the international market, which may affect our operations.

In addition, there is a high concentration of companies and consequently a low level of competition in oil and natural gas transportation and marketing sector. This could impact our ability to obtain these services.

In this competitive environment, we and our subsidiaries are classified as independent companies, that is, companies not controlled by or associated with the largest agents in the industry, but who seek opportunities primarily in offshore basins, specifically in shallow water.

Operating Segments of Panoro Group after the Merger

The Panoro Group operates predominantly in two business segments being the exploration and production of oil and gas, which is split by licence for management purposes and four geographical segments being Nigeria, Gabon, the Republic of Congo and Brazil.

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

- The Dussafu segment holds the Panoro Group's 33.3% working interest in the Dussafu Marin exploration permit in Gabon.
- The JDZ 3 segment holds the Panoro Group's 10% working interest in the JDZ 3 exploration licence in Nigeria.
- The OML113 – Aje segment holds the Panoro Group's 12.5% profit interest in the OML113-Aje exploration licence in Nigeria.
- The MKB Congo segment holds the Panoro Group's 20% working interest in MKB exploration permit in Republic of Congo (Brazzaville)..
- The Brazilian segment holds the following assets:

- The BCAM-40 prospect holds the Panoro Group's 10% interest in Manati which is a producing field in Brazil. This also includes 10% interest in Camarao Norte field which is at a development stage.

- The BS-3 Project holds Panoro Group's interest in a portfolio of offshore licences in Santos basin, Brazil comprising 50% interest in Cavalo Marinho, 65% interest in Estrela-do-Mar and 35% in Coral field which is being considered for redevelopment.

- The Sardinha licence area holds the Panoro Group's 20% interest in the Sardinha field located in Camamu-Almada basin in Brazil. This field is being considered for development.

- Round 9 blocks represents Panoro Group's 50% interest in blocks S-M-1100, S-M-1035 and S-M-1036 acquired in 2007. These blocks are in close proximity to the Coral field. A Company owned subsidiary operates these blocks.

- The 'Other' category consists of the remaining entities in the corporate head office and service company operations that are not directly attributable to the core asset segments.
- Interest in licence OML 90 – Ajapa has been classified as an asset held for sale and therefore not considered as an operating segment.

Management monitors the operating results of business segments separately for the purpose of making decisions about resources to be allocated and of assessing performance. Segment performance is evaluated based on capital expenditure and production levels.

6.6 STATUTORY AUDITORS

6.6.1 PANORO

The Company's auditor from 7 July 2010 is Ernst & Young, Christian Frederiks plass 6, Oslo Atrium, P.O. Box 20, N0051 Oslo, Norway. The auditor is a member of the Norwegian Auditor Association (Den Norske Revisorforening). From incorporation 28 April 2009 until 7 January 2010 Kjelstrup & Wiggen AS, Henrik Ibsens gate 20, 0255 OSLO was the auditor for the Company. Kjelstrup & Wiggen AS is a member of the Norwegian Auditor Association (Den Norske Revisorforeningen). From 7 January 2010 to 7 July 2010 Deloitte AS, Karenslyst allé 20, 0278 OSLO, was the auditor for the Company. Deloitte AS is a member of the Norwegian Auditor Association (Den Norske Revisorforening).

6.6.2 THE PAN GROUP

Since inception of the Pan Group in 2008, Ernst & Young Cyprus Limited has been the Pan Group's auditors for the periods ended 31 December 2008 and 2009.

6.6.3 BRAZIL GROUP

Deloitte has been the auditor of Norse Energy for 2008 and 2009. Ernst & Young was the auditor of Norse Energy for 2007. Ernst & Young is a member of the Norwegian Auditor Association (Den Norske Revisorforeningen).

7. OPERATING AND FINANCIAL REVIEW

The holding company Panoro Energy ASA (established April 28, 2009) was acquired by Norse Energy in December 2009. The legal entity had no operations or activity in 2009. With effect from the time of the demerger from Norse Energy on June 7, 2010 the entity fulfils the role as holding company with part of the finance function being based in Norway and employed by the Company.

Since the activity in Panoro Energy ASA is limited the discussion in the following section is focusing on Panoro Group. The interim financial statements of the Panoro Group can be referred to in Appendix 2.

The following discussion of the financial condition and results of operations should be read in conjunction with the financial statements included in this Prospectus. The following discussion may contain forward-looking statements that are based on current assumptions and estimates by Panoro Group's management regarding future events and circumstances. Panoro Group's actual results could differ materially from those expressed or implied by the forward-looking statements as a result of many factors, including those described in Section 2 "Risk factors". The selected historical consolidated financial data for Panoro Group discussed in this section is based on the unaudited financial information as presented in the interim condensed consolidated financial statements of the Group for the six months ended 30 June 2010.

7.1 COMPARISON FOR THE PERIOD ENDED 30 JUNE 2010

7.1.1 Management's discussions and analysis of financial conditions and results of operations Q2 2010

EBITDA for the second quarter of 2010 was negative USD 2.4 million, down from USD 4.6 million in the previous quarter. The decline is mainly due to significant one-off increase in corporate costs that was a direct result of merger related costs of USD 4.6 million.

A decline of 5% in gas revenues for the second quarter in comparison to the first quarter of 2010 was a direct result of decline in production volumes offset by a slight gain on strengthening of the Real to USD. Further, consequent to the increase in production compared to 2009, the production from Manati is now subject to "Especial Participation Charge" which was triggered in this quarter and amounted to USD 0.4 million.

Production costs for the second quarter of USD 1.2 million increased by USD 0.2 million compared to the previous quarter despite a decline in production volumes. This is mainly due to movements in forex compared to previous quarter.

Exploration related and dry-hole costs for the current quarter represented USD 4.7 million that relates to seismic costs and exploration related costs.

Depreciation has increased by USD 155 thousand to USD 1.9 million in comparison to previous quarter despite the decline in production volumes. The increased charge can be attributed to changes in foreign currency rates compared to previous quarter and effects of recent revisions to reserves estimates. Year to date depreciation has increased by 19% in relation to 2009 primarily due to unfavourable foreign exchange fluctuation and minor impact of revision in reserves estimates.

Year to date EBITDA has increased by approximately 36% consequent to 25% higher production volumes than the corresponding period in 2009 supplemented by a 20% higher USD unit price compared to 2009 due to improved currency exchange rates against USD. Production cost for 1H 2010 stood at 11% of gas sales revenue compared to 13% for 1H 2009. Year to date exploration costs for 2010 were down by USD 2.6

million from the comparable period of 2009. The decline was offset by an increase in one -off merger costs by USD 5.4 million incurred up to 30 June 2010. General and administrative costs saw an increase of 22.6% quarter on quarter, and of 41.6% for the year to date periods on account of corporate costs of Panoro. These costs included one-off items like corporate cost allocations and final settlements for previous NEC management and employees who are now part of Panoro.

The current period also include USD 2.9 million of gain on acquisition of subsidiary which 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 has been recognised as income in accordance with IFRS 3.

Net effects of foreign exchange items were negative USD 2.5 million which primarily arose on the NOK denominated NEC01 bond, cash balances in Panoro Energy and exchange loss on conversion of Brazilian debts into local currency (BRL) from US dollars. The non-cash effect of the Company's warrants issued in second quarter of 2010 was a loss of USD 0.5 million compared to the initially recognised value.

Year to date net interest costs of USD 8.9 million increased by 62.7% compared to the same period in 2009 and for the second quarter stood at USD 5.6 million compared to USD 4.1 million for Q1 2010. The increase is a direct result of higher interest charges prior to restructuring incurred on the Brazilian external loans. Further, interest due on NEC-01 bond is also included in the current period.

Income tax mainly pertains to Brazilian operations and stood at a benefit of USD 2.3 million for the first half of the year compared to an expense of USD7.9 million for the comparable period in 2009. On a quarterly basis, the income tax benefit increased from USD 0.4 million to USD 2 million from Q1 2010 to Q2 2010. This is mainly due to increase in deferred tax assets recognised for the period.

Net loss for the first half of 2010 was USD 8.5 million compared to USD 16.2 million in the comparative period. Q2 2010 resulted in a net loss of USD 6.9 million compared to USD 1.6 million income in Q1 2010.

7.2 THE BRAZIL GROUP

The following discussion of the financial condition and results of operations should be read in conjunction with the financial statements included in this Prospectus. The following discussion may contain forward-looking statements that are based on assumptions and estimates by Brazil Group's management regarding events and circumstances that existed at the time the respective financial statements were prepared. The selected carved out historical consolidated financial data for Brazil Group discussed in this section is based on the financial information as presented in the audited consolidated financial statements of the Norse Energy Corporation ASA for years ended 31 December 2007, 2008 and 2009. For further information of how the carved out financial information has been compiled, reference is made to Appendix 9.

7.2.1 Management's discussions and analysis of financial conditions and results of operations 2009

Revenue in the Brazil Group decreased from USD 73.6 million in 2008 to USD 34.7 million in 2009.The decline mainly reflects the abandonment of Coral but also lower gas production and sales on the Manati field due to low regional demand in the early part of the year.

Production costs decreased sharply from USD 25.7 million to USD 4 million, the main reason was the Coral (oil production) abandonment and therefore substantially all production costs relates to Manati gas production.

Exploration and dry hole costs expensed in 2009 decreased from USD 22.9 million in 2008 to USD 14.2 million in 2009. Total dry hole cost in 2009 was USD 7.3 million compared to USD 17.8 million in 2008.

The decrease in general and administrative costs from USD 15.9 million in 2008 to USD 11.5 million in 2009 is mainly due to lower activity and a reduction in the number of employees in 2009.

Depreciation decreased to USD 6.8 million from USD 11.2 million in 2008. The reduction relates mainly to lower production on the Manati field in the beginning of the year.

The resulting operating loss for 2009 was USD 15.5 million compared to USD 28.1 million for 2008.

Net interest expense increased to USD 13.2 million in 2009 from USD 11.7 million in 2008.

Total assets increased from USD 232.9 million in 2008 to USD 296.9 million in 2009.

The Brazil Group's assets are mainly denominated in BRL and therefore increased considerably measured in USD due to the strengthening of the BRL.

Equity for the Brazil Group was USD 105 million (35.4%) at the end of 2009 compared to USD 67.6 million at the end of 2008 (29%).

The Brazil Group’s net cash flow from operating activities was USD 8.1 million in 2009 compared to USD 0.1 million in 2008. The main explanation for the variance is a high level of dry hole and exploration cash costs combined with higher general and administrative costs in 2008 compared to 2009.

Net cash flow from investing activities was – USD 8.8 million in 2009 compared to – USD 18.3 million in 2008. The negative cash flow from financing activities compared to 2008 is explained by materially lower proceeds from issuance of new debt.

7.2.2 Management’s discussions and analysis of financial conditions and results of operations 2008

The increase in revenues from USD 46.6 million in 2007 to USD 73.6 million in 2008 is explained by a 100% increase in Manati gas sales from USD 18.7 million to USD 37.4 million. In addition to Brazil Group higher oil production and sales (USD 36.4 million) from Coral than originally anticipated prior to commencing abandonment operation by the end of the year.

Increased production costs relate to increased production volumes.

Expensed exploration and dry hole costs increased significantly from USD 0.2 million in 2007 to USD 22.9 million in 2008, mainly as a result of dry hole costs of USD 17.8 million.

The decrease in depreciation from USD 24.2 million to USD 11.2 million is mainly related to the Coral field, which for accounting purposes was written down to USD 0 pr December 2007 and was therefore not depreciated in 2008. The impairment for 2008 relates to the license for the BM-CAL 5 &6 blocks in Brazil as well as an increased abandonment charge for the Coral field.

The increase in general and administrative cost from USD 7.9 million in 2007 to USD

15.9 million in 2008 is explained by a higher level of activity.

Operating loss was USD 28.1 million compared to a loss of USD 35.1 million for 2007.

Net interest expense increased to USD 11.7 million in 2008 from USD 7.2 million in 2007.

Total assets decreased to USD 232.9 million in 2008 from USD 275.8 million in 2007 explained mainly by impairment of previously capitalized exploration costs as well as negative currency translation effects. Brazil Group Equity for the Brazil Group was USD 67.6 million end of 2008 (29%) compared to USD 92 million (33.3%) end of 2007.

The Brazil Group's cash flow from operating activities was USD 0.1 million in 2008 explained by a high level of exploration costs incurred and expensed during the year. Brazil Group.

7.2.3 Management's discussions and analysis of financial conditions and results of operations 2007

Revenue in 2007 of USD 46.6 million was up from USD 28.9 million explained by increased production at the Manati Field and Coral.

The result in 2007 was negatively affected by significant Coral depreciations and an impairment charge in the fourth quarter.

Loss for the year was USD 27.8 million.

Investments in licenses and exploration assets was USD 6.1 million while the company invested USD 25.7 million in producing fields.

The investments were financed by issuance of debt.

Equity for the Brazil Group was USD 92 million (33%) end of 2007.

7.3 THE PAN GROUP

The following discussion of the financial condition and results of operations should be read in conjunction with the audited financial statements included in this Prospectus. The following discussion may contain forward-looking statements that are based on assumptions and estimates by Pan Group's management regarding events and circumstances that existed at the time the respective financial statements were prepared. The selected historical consolidated financial data for Pan Group discussed in this section are based on the financial information as presented in the audited consolidated financial statements for years ended 31 December 2008 and 2009.

7.3.1 Management's discussions and analysis of financial conditions and results of operations 2009 and 2008

The Group did not have any external revenues for the years 2009 and 2008 as the business was primarily engaged in exploration activities.

Administration expenses increased by 17% compared to 2008 mainly due to full year of operations compared to only ten months in 2008. Impairment of USD 24.4 million in 2009 represents USD 12.1 million for JDZ-3 block and USD 12.3 million for OML-90 (Ajapa).

Expenses of USD 2.8 million in 2009 related to the acquisition of the minority share of a subsidiary African Energy Equity Resources Limited which holds the OML-115 licence.

Foreign exchange gain for the year increased by tenfold during the period primarily as a result of exchange rate fluctuations between USD and GBP over cash balances.

Income tax expenses for 2009 and 2008 arise primarily in the Company's parent due to income on intercompany recharges and interest on loans to subsidiaries.

Increase in loss for the year 2009 by USD 28.8 million compared to the year 2008 by is a direct result of increase in impairments and administrative expenses in 2009.

Equity for the Pan Group was USD 154.8 million in 2009 compared to USD 191.5 million for 2008 which respectively represented 97% and 96% of the total assets.

Net cash flow from operating activities for 2009 represented USD 18.7 million for operating activities in 2009 and USD 1.8 million in 2008. Investing activities represented major cash expenditure for both years whereby USD 48.9 million was spent in 2008 and USD 16.8 million in 2009 to acquire licences and carry out exploratory activities in Nigeria and Gabon. Cash was primarily generated through equity issue in 2008 of USD 65.5 million and 2009 of USD 34.8 million.

8. CAPITAL RESOURCES

Panoro Energy obtains its sources of funding from a mix of equity, bank debt, bonds and sale/farm-out of assets.

On 29 June 2010, Panoro Energy completed the final tranche of the Private Placement with aggregate gross proceeds NOK 380 million (equivalent to USD 65 million at the then prevailing USD/NOK currency rate of 5.85). With a long term guaranteed monthly cash flow from the Manati field coupled with the access to debt and equity capital markets, Panoro Energy is confident about securing its long term financial commitments. In addition Panoro Energy intends to optimize its asset portfolio through divestiture as well as acquisitions in line with its activity level.

The Company has bank debt of Real denominated equivalent of USD 80.8 million (USD/BRL 1.80) in Brazil, with a 9 year repayment schedule whereby the majority of the repayments are to be completed within the next 5 years. The bank debt consists of three loans with a floating interest rate plus spread with an average interest rate of 14.7%. The restructuring of the bank debt in Brazil has been finalized, and the BNDES credit facility covers future planned capital expenditures related to upgrade of the Manati compressor station. The refinancing will not only simplify the loan structure but also provide a lengthier amortization schedule.

The Company has a high yield fixed interest bond, NEC 01 with a nominal value of NOK 286.5 million. A restructuring proposal for the bond loan was approved by bondholders in December 2009 and was effective from 30 June 2010.

A prepayment of approximately NOK 43 million (15%) plus accumulated interest was made to NEC01 bondholders in July 2010. Furthermore, principal repayments amount to approximately NOK 122 million in 2011 and 122 million 2012. The loan carries a fixed interest rate of 13.5% from July 13, 2010 onwards.

The Company has no other debt and the book equity ratio as of 30 June 2010 is 52.3%. This is an increase from 33.5% in 2009.

The Company's treasury policy is to place any excess liquidity in cash or cash equivalents.

8.1 CASH FLOWS

The table below is derived from the combined unaudited historical information as presented in Section 7.4 "Unaudited Consolidated Cash Flow" above (USD 000).

Unaudited Consolidated Cash flow Statements (USD 000)

	30 June 2010 *USD 000* (Unaudited)	30 June 2009 *USD 000* (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income / (loss) for the period before tax	(10,955)	24,222
Adjusted for:		
Depreciation	3,761	3,170
Market adjustments for warrant effects	577	-
Non-cash exploration related costs	-	7,300
Gain on sale of property	(251)	-
Net finance costs	9,781	6,008
Other adjustments -including working capital	(20,108)	(61,770)
Net cash flows from operating activities	**(17,195)**	**(21,070)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in Exploration, production and other assets	(954)	(9,546)
Proceeds from sale of property	1,421	-
Net cash acquired at acquisitions	4,304	-
Net cash flows from investing activities	**4,771**	**(9,546)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from issuance of shares	54,851	30,000
Net interests paid	(8,417)	(2,840)
Financial liabilities raised / (repaid)	9,135	(4,117)
Net cash flows from financing activities	**55,569**	**23,043**
Foreign exchange differences	97	2,550
Change in cash and cash equivalents during the period	43,242	(5,023)
Cash and cash equivalents at the beginning of the period	10,655	7,597
Cash and cash equivalents at the end of the period	**53,897**	**2,574**

8.2 WORKING CAPITAL STATEMENT

In the opinion of the Company, its working capital is sufficient to cover the Company's present requirements, that is, for a period of at least 12 months from the date of this Prospectus.

8.3 CAPITALISATION AND INDEBTEDNESS

The following table shows the actual capitalisation and indebtedness as per 30 June 2010 (USD 000) of Panoro Energy ASA. The numbers for the Company for 2010 are unaudited and have been derived from the unaudited consolidated financial statements. The compilation of the capitalization and indebtedness table as such is unaudited.

	Panoro Group
	30.06.2010
Total capitalization	
A. Share capital	34,181
B. Legal reserve	0
C. Other reserves	199,965
D. Total equity (A+B+C)	234,146
E. Long-term debt guaranteed	0
F. Long-term debt secured	100,666
G. Long-term debt (unguaranteed/unsecured)	0
H. Total long-term debt (E+F+G)	100,666
I. Current debt guaranteed	0
J. Current debt secured	19,574
K. Current debt (unguaranteed/unsecured)	10,243
L. Total current debt (I+J+K)	29,817
N.Total capitalization (D+H+L)	364,629
Net indebtedness	
A. Cash	56,347
B. Cash equivalent	0
C. Trading securities	0
D. Liquidity (A+ B+C)	56,347
E. Current financial receivable	0
F. Current bank debt	12,959
G. Current portion of non current debt	6,615
H. Other current financial debt	10,243
I. Current financial debt (F+G+H)	29,817
J. Net current financial indebtedness(I-E-D)	-26,530
K. Non current bank loans	64,534
L. Bond issued	36,132
M. Other non current loans	0
N. Non current financial indebtedness (K+L+M)	100,666

There have been no material changes in the balances after 30 June 2010.

8.4 BORROWINGS

The table below shows a statement of net indebtedness for Panoro Energy in the short term and the long term as of 30 June 2010 (USD million):

30 June 2010			
	Short term	Long term	Total
Brazil			-
BRL denominated bank loans	13.0	64.6	77.6
Norway			
NEC01 (NOK)	6.6	36.1	42.7
Cyprus			
Sector Loan (USD)	10.2	-	10.2
Total	29.8	100.7	130.5
Cash and cash equivalents			56.3
Net interest bearing debt			74.2

The maturity profile of the loan balances are tabled below:

	Loan balance as of 30 June 2010					
	2010	2011	2012	2013	>2014	Total
Brazil						
BNDES I	3.9	7.8	7.8	4.8		24.3
BNDES II	0.2	2.5	2.5	2.5	12.4	20.1
Treasury Loan	0	8.3	8.3	8.3	8.2	33.2
Norway						
NEC01 (NOK)	6.6	18.1	18.1			42.7
Cyprus						
Sector Loan (USD)	10.2	0	0	0	0	10.2
Total	20.9	36.7	36.7	15.6	20.6	130.5
Cash and cash equivalents						56.3
Net interest bearing debt						74.2

Norway

NOK 286.5 million bond loan ("NEC01")

Upon the de-merger from NEC, The Company assumed obligations as borrower for the NOK 286.5 million NEC01 bond loan under restructured terms. An aggregate principal amount of NOK 43 million plus accrued and unpaid interest thereon is payable in July 2010. A principal amount of NOK 122 million of the loan matures on 13 July 2011, together with any accrued and unpaid interest thereon; while the remaining loan shall mature and be due and payable on 13 July 2012, together with any accrued and unpaid interest thereon payable every quarter. The loan carries a fixed interest rate of 13.5% from July 13, 2010 onwards.

The bonds are listed on Oslo Stock Exchange (OSE) under the ticker "NEC01". The main covenants of the bond loan after de-merger are as follows:

- The parent Company must maintain at all times the book equity of US$14 million after 31 March 2011.

- After 31 March 2011, the total equity in the Company shall constitute at least 30% of capital employed. "Capital employed" is defined as the Company's total equity plus interest bearing debt, including financial instruments that have the commercial effect of borrowing, including guarantees and leasing commitments.
- The Company shall not make or declare any distributions and procure that NEdB does not make or declare any distributions to any shareholders other than the Company until the Outstanding Intercompany amount due is zero.
- The Company shall not provide guarantees or other credit support to, or make investments in, any person or entity outside the Panoro Group, when backed by additional equity as prescribed in the loan agreement.

The Company is in compliance with the covenants for the NEC 01 bond loan at the date of this Prospectus.

Brazil financing

The Brazilian subsidiaries have entered into a refinancing agreement with its Brazilian banks consisting of three different loans all Reais denominated with pledge against the Manati asset in the subsidiary Rio da Contas;

Loan overview	Amount in USD	Duration
1. Treasury loan	USD 33 million	5 years
2. BNDES I loan	USD 24 million	7 years (existing loan from 2006)
3. BNDES II loan	USD 20 million	9 years

The Brazilian subsidiaries have gross debt of Reais denominated equivalent USD 77 million (Net debt USD 69.4 million at exchange rate USD/BRL 1,80) in Brazil split in the three loans described above.

The Treasury loan is funded by local Brazilian banks and the two BNDES loans are funded by the Brazilian State Development bank (BNDES I and BNDES II). The BNDES II loan agreement includes a credit facility of additional USD 25 million for future planned capital expenditures related to upgrade of the Manati compressor station. All three loans have floating interest rate. The subsidiaries in Brazil did not formally comply with its covenants at year end, but has since year end received waivers. Under the refinancing agreement, the treasury loan carries a cash sweep structure.

The main covenants for the Brazilian loans are as follows:

- Keep an Equity Ratio above 30:70. (Total Equity over Third Party Funds (short term +long term liabilities))

- Keep the Debt Service Coverage Ratio higher than 1,30 DSCR=(EBITDA - Income tax payment) / (Principal + Interest amortization)

- Abstain from distributing any funds from the Rio das Contas to the shareholders until repayment of the loans.

Restrictions on use of cash flow in the Rio Das Contas subsidiary

The cash currently generated in the Brazilian operations all originate in Rio Das Contas. The loan agreements for the Brazil bank debt restrict Panoro Energy from applying such cash flow to serve other financial debt, and consequently the Company's bond debt is envisioned to be served by disinvestments and/or refinancing and/or new equity.

8.5 INVESTMENTS

Historical investments carved out (unaudited)

(Compiled from Norse Energy Annual reports and notes and Panoro Group interim financial statements).

The table below summarizes the Company's investments in 2007- Q2 2010 (USD 000):

	2007	2008	2009	Q2 YTD 2010	Total
Licences and exploration assets	6 136	38 855	10 896	68 418	124 305
Of which expensed	-3 992	-34 611	-7 300	-	-45 903
Production assets	25 755	10 958	5 201	-	41 914
Asset held for sale	-	-	-	30 000	30 000
Total principal investments	**27 899**	**15 202**	**8 797**	**98 418**	**150 316**

Q2 2010 (YTD)

In June 2010, the Company acquired Pan Group's investments through the merger amounting to USD 97.4 million including the asset held for sale. Investment in Brazilian assets for the period amounted to USD 927 thousand.

2009

In 2009, the Group invested USD 10.9 million in licences and exploration assets, of which USD 7.3 million was expensed as dry hole costs mainly related to the Cravo exploration well. In addition, investments of USD 5.2 million were added to the Manati production assets.

2008

In 2008 the Group invested a total of USD 49.8 million in Brazilian assets of which USD 28.9 million was expensed mainly related to the BCAM 40 and BCAL 5 & 6.exploration licenses. Total expensed amount in 2008 also included the Coral investments.

2007

In 2007 the main field investments; approximately USD 22 million related to the Manati field. In addition, investments of USD 6.1 million were made in licenses and exploration assets related to the BS3 fields, BCAM 40 and Sardinha.

Investments in progress

From the end of the second quarter and to the date of this Prospectus, we have capitalized around USD 600 thousand in investments in explorative projects in Congo financed from share capital proceeds.

The Company has no material future investment commitments, and there are no firm commitments on new bonds or bank loans.

8.6 PRESENTATION OF THE COMPANY

8.6.1 Introduction

The Company is a independent E&P company focusing on the South Atlantic region. The Merged Company's business activities are exploration, development and production of petroleum resources. The Company has licenses in Brazil, Nigeria, the Joint Development Zone of Nigeria and Sao Tome and Principe, Gabon and the Republic of Congo.

8.6.2 Incorporation, registered office and registration number

Panoro's legal and commercial name is Panoro Energy ASA. The incorporation name was New Brazil Holding ASA and the Company was renamed to Panoro Energy ASA on 1 June 2010. The Company is a Norwegian Public Limited Company organised under Norwegian law, including the Norwegian Public Companies' Act. Panoro's registered organization number is 994 051 067, and was incorporated on 28 April 2009 under the name Startup 387 09 AS.

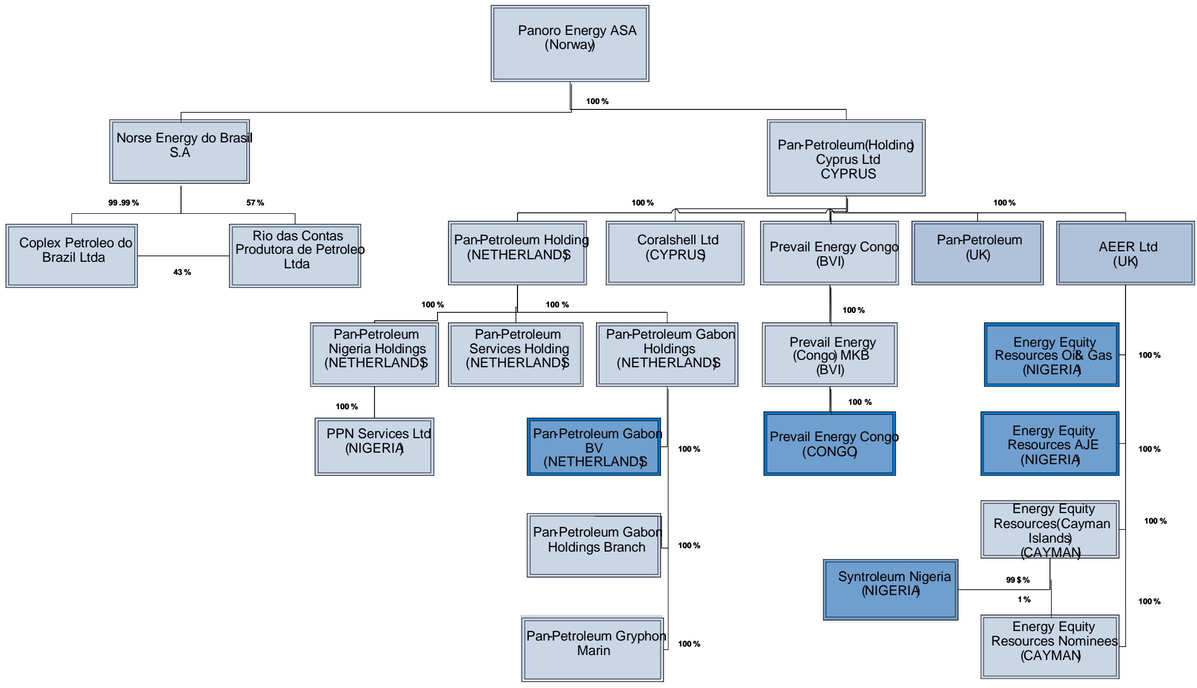
As of the date of this Prospectus, Panoro's registered share capital is NOK 239,440,083.25 divided into 163,947,081 Shares each with a nominal value of NOK 1.460471768. All the Shares are authorised and fully paid.

The Company has one class of shares, each Share carrying equal voting rights at general meetings. The Company's articles of association does not provide for limitations on the transferability or ownership of Shares.

Panoro's registered office is at Dr. Maudsgate 1-3, 0124 Oslo, Norway. The Company's telephone number is + 47 23 01 10 00. The Company has offices in Oslo, London and Rio de Janeiro.

8.6.3 Legal Structure

The legal structure of Panoro Energy following completion of the Transaction is illustrated below:



Norse Energy do Brasil, Business adress: Praia de Botafogo, 228, Sala 801 Botafogo, Rio de Janeiro, Brazil

Panoro Petroleum Cyprus Ltd, Business adress: 43-45 Portman Square, London W1H 6LY, United Kingdom.

8.6.4 History and Development

In 2005, the two companies Northern Oil ASA and NaturGass (USA) AS merged and changed its name to Norse Energy Corp. ASA. On 13 July, 2005 Norse Energy Corp. ASA was listed on the Oslo Stock Exchange under the ticker symbol "NEC".

Northern Oil was incorporated on 2 December 1997 under the name Northern Offshore ASA. In the beginning of the year 2000, Northern Offshore ASA acquired a controlling interest in two Canadian oil companies, Naftex and Petrolex Corporation. Naftex owned all the shares in Coplex which, in turn, owned 27.5% interests in the Coral, Estrela do Mar and Cavalo Marinho fields offshore Brazil. Subsequent to this acquisition, a decision was made to split the business of Northern Offshore ASA into two parts. The original investments in drilling units and production platforms were transferred to a new company; Northern Offshore Ltd. The oil related assets represented by the shareholdings in Naftex and Petrolex remained in the ownership of Northern Offshore ASA. Following these transactions Northern Offshore ASA was renamed to Northern Oil ASA and continued its original listing on the Oslo Stock Exchange under the new name. Northern Oil focused its activities on the exploration and production of oil. In 2002, Naftex sold its interest in Egypt to Lukoil. Petrolex Energy Corporation also sold its interests in Columbia.

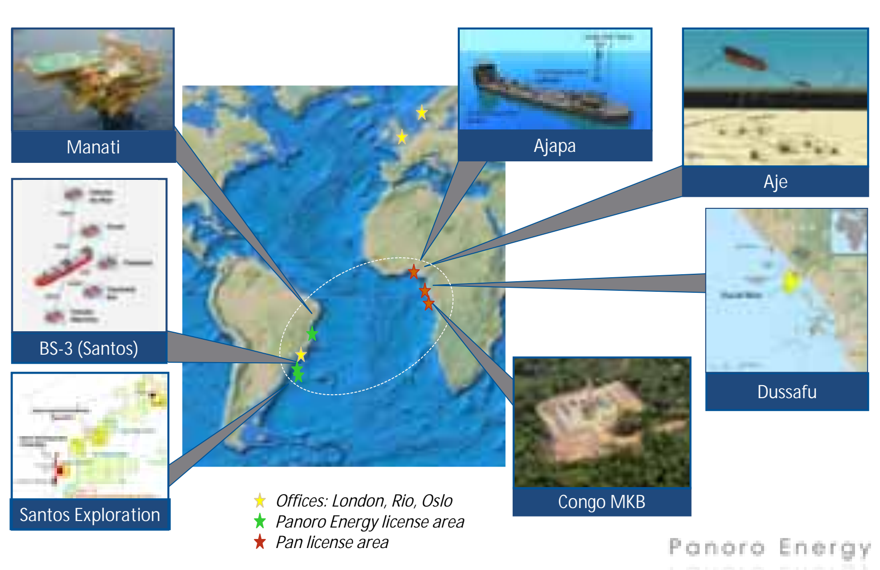
In a general meeting in Norse Energy on 28 January 2010 it was resolved that Norse Energy should be divided into two parts, where ownership of Norse Energy's mainland business, i.e., the business in the US and its associated assets was to be retained by Norse Energy while the ownership of the business in Brazil through Norse Energy do Brasil S.A. and its associated assets was to be transferred to Panoro Energy (the "Demerger").

The Demerger and the separation of the two business areas of Norse Energy and the separate listing of Panoro was assumed to optimise the capital structure and provide considerable growth potential in the respective markets. The Demerger was completed on 7 June 2010 and Panoro was assumed for listing on Oslo Børs on 8 June 2010. Through the Demerger Panoro acquired, among other things, 70% of the shares in NEdB.

At a shareholders' extraordinary general meeting of the Company on 26 April 2010 a Merger between the Company and Pan-Petroleum Holding AS ("Pan Holding") was approved (the "Merger"). The objective of the Merger was to create a significant E&P company with organizations and assets that are complementary and which jointly should enable superior performance. The Merger was completed on 29 June 2010 with Pan Holding as the assigning entity and Panoro as the acquiring entity. Through the Merger, Panoro acquired 100% of the shares in Pan Group and the 30% of the shares in NEdB not already owned by the Company.

8.6.5 Business Overview

The Company has a balanced portfolio of high quality assets in the South Atlantic region which provides a strong platform for further growth. With more than 200 million boe of discovered 2P reserves and contingent resources the potential for value creation is significant.



Combined Company– balanced portfolio
Diversified company with projects throughout the value chain

Field	Production	Under development	Field Planning	Exploration
Manati				
Ajapa				
MKB				
Aje				
BS -3				
Dussafu				
Santos blocks				

Panoro Energy

As illustrated in the figure above, the portfolios of the two merging companies complement each other. New Brazil Holding has a portfolio of strong production from the Manati field and longer term growth opportunities from the BS-3 field and the Round 9 exploration block in the Santos Basin. Pan Group' portfolio offers near term growth from the Ajapa field in Nigeria and medium term growth opportunities from the MKB permit in the Republic of Congo, the Aje field in Nigeria as well as the Dussafu exploration asset in Gabon.

8.6.5.1 Brazil

Manati (10% interest) – Camamu-Almada Basin

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 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.

The Manati natural gas field is located inside the BCAM-40 Block and was discovered in October 2000. The 10% interest in the Manati field was acquired in 2005. Our partners in this field are Petrobras, the operator, holding a 35.0% interest, Queiroz Galvao, with a 45.0% interest and Brasoil with a 10.0% interest.

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.

The Company anticipates ultimate recoverable reserves to exceed the current gas contract volume. The consortium is discussing a potential additional gas contract for the remaining volumes above the existing take or pay contract.

For the present work, GCA was able to include results of the 2009 field re-evaluation conducted by the Operator involving re-visiting seismic interpretations and geological modeling considering 3 years of production history with pressure data.

GCA restricts 1P numbers to the minimum contracted volume according to the signed take-or-pay sales contract. They also point out that some 2.8 MMBOE of this would require installation of compression equipment. (Compressor-station currently planned for 2012).

Compared to last year, 1P reserves according to Gaffney & Cline are down from 12.8 to 11.5 MMBOE while 2P Reserves decreased from 16.7 to 15.8 MMBOE, reflecting both the new interpretation (which added 0.3 MMBOE to the 2P estimates) and 1.183 MMBOE produced volumes during 2009.

Certified 3P volumes of 17.9 MMBOE assume a 7th well draining the northern extension of the field.

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

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 our interest to 42.5% in 2005 and to 50.0% in 2006. Our consortium partners in the Cavalo Marinho Field are Petrobras, the operator who holds an interest of 35.0%, and Brasoil, owning an interest of 15% in the field.

The Company acquired 27.5% interest in the Estrela do Mar Field in 2001 and subsequently increased our interest to 57.5% in 2005 and to 65.0% in 2006. Our partner in the Estrela do Mar Field is Petrobras, which holds a 35.0% interest and serves as operator of the asset.

The Company acquired an indirect interest of 27.5% in the Coral Field through our subsidiary Coplex in 2001. Subsequently we increased our interest with the acquisition of an additional 7.5% interest in 2006. Our partners in the field are Petrobras, operator with an interest of 35%, Queiroz Galvao, owning an interest of 15.0% and Brasoil, owning an interest of 15.0%. The field produced oil until the end of 2008 and is considered for redevelopment as part of the BS3 Integrated project.

Over the past two years, the Company performed a series of third party feasibility studies, including the geological mapping and modelling of the reservoirs, production modelling, conceptual engineering and risk analysis in the BS-3 project. The studies showed significant additional recoverable volumes and improved economic robustness. In the development scenario, the fields will have subsea well templates connected to a joint FPSO, and the produced gas will be transported through a pipeline to be built to shore.

The BS3 Integrated project hold third-party certified 2P reserves net to the Company's interest of 19.6 MMBOE at the end of 2009.

<u>Cavalo Marinho field (CVM) 50% to Norse</u>

Following ANP's requests to find solutions to avoid flaring gas, the Operator in October 2007 filed a new development plan for CVM, based on a joint development with the nearby Caravela field (100% Petrobras). The development plan for CVM includes two horizontal wells, a shared FPSO (located half way between the fields), a 180km gas pipeline to shore where a new treatment plant will link to the nearby Bolivia pipeline system.

Based on the filed development plan GCA has certified volumes as follows: – 1P reserves 5.7 MMBOE and 2P reserves of 14.2 MMBOE. GCA restricts P1 volumes since the subzone B2 was not flow tested in the CVM discovery well (due to well mechanical problems).

The independent study on CvM done by AGR shows higher oil in place and involves a proposed development scenario with three production wells resulting in higher resources. GCA has audited this work and certified 15.1 MMBOE as best estimate – 2C contingent resources.

<u>Estrela do Mar field (EdM) 65% to Norse</u>

With the prospect of an early abandonment of Coral, the Operator prepared a Development Plan for EdM which was filed with ANP in September 2007. This plan reflects a stand-alone development solution, re-using Coral equipment and flaring associated gas. Revised cost analyses and oil price forecasts leave EdM without 1P reserves but 2P reserves of 5.7 MMBOE.

GCA has also considered AGR's alternative interpretation and proposed development solution involving a sub-sea satellite tie-back to the Cavalo Marinho-Caravela integrated project. This scenario improves the Estrela do Mar project and GCA has certified the Best estimate – 2C: 6.2 MMBOE as Contingent Resources.

Coral field

The Coral field was developed with three sub-sea producing wells clustered beneath a floating production unit capable of processing 24,000 bpd oil and water with flaring of associated gas.

Production from Coral was terminated on December 25th, 2008 following a period where a pilot water injection scheme had provided encouraging results.

Both the operator and Norse have conducted studies to identify the potential of further Coral recoveries and a future return to the field is expected. Coral is then considered as a satellite to the Cavalo Marinho – Caravela integrated development solution scenario. The re-development of Coral involves side-tracking existing wells, water injection and gas lift that will allow production of resources left behind. The partners have also decided to retain the license.

GCA has also considered AGR's alternative interpretation and proposed development solution involving a tie back to the Cavalo Marinho - Caravela integrated project. With this scenario GCA certifies Best estimate – 2C: 3.4 MMBOE as Contingent Resources.

Camarão Norte (part of BCAM-40 block, 10% interest) – Camamu-Almada Basin

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 will be held during 2010.

Sardinha (20% interest) – Camamu-Almada Basin

The Sardinha field, some 30 km south of Manati but only 4km offshore, has six wells drilled and tested to delineate the accumulation, which is a gas cap above an oil rim.

The Sardinha field was discovered by Petrobras in 1992 and is located offshore in around 30 meter-deep waters. The field has good seismic coverage (2D and 3D) and 11 wells have been drilled until the end of 2007. We acquired our 20.0% interest in this asset in 2006. Our partners in the Sardinha Field are El Paso Óleo e Gás, the operator, with an ownership interest of 40.0%, and Petrobras, holding a stake of 40.0%.

Since 2006, the consortium partners have been analyzing different plans in relation to the field development. Two different options are being analyzed, one contemplating the production of oil and natural gas and the other contemplating only the production of natural gas. The Company considers this a marginal field and considers to farm out of the license.

S-M-1100, S-M-1035 and S-M-1036 Blocks

The Company was awarded S-M-1100, S-M-1035 and S-M-1036 Blocks in the ninth bidding round for concessions held in November 2007 by Brazilian Petroleum Authorities, ANP. The Company is the operator of the three Blocks, with 50% interest in each of them, and Brasoil holds 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 reservoir characteristics similar to the Company's other assets in the area. These exploration blocks, which cover an area of approximately 510 square kilometres, are anticipated to hold significant exploration potential

During 2009, the Company acquired 3D seismic which covered the three exploration blocks in a total area of ~725 square kilometres (~180,000 acres). Interpretation of the seismic is currently ongoing and based on the results of the prospects analysis, the Company will decide on a potential second phase of the exploration program. The deadline for deciding the drilling commitment for the second exploration phase is Q1 2011.

8.6.5.2 Nigeria

OML 90 Ajapa Field (40% Interest)

Pan Group has a 40% working interest in the Ajapa field located offshore Delta State in Nigeria. The asset was acquired by a Pan-Petroleum subsidiary in 2007 and is operated by the indigenous company Brittania-U. The challenges of being in the Niger Delta are mitigated by venturing with an indigenous company.

The Ajapa-1 well drilled by Gulf Oil in 1987 tested at a total rate of >6,000 bopd from two zones. The discovery well was sidetracked in 2008 resulting in a well ready for production. The expected reserves figure based on and an injector and producer pair is 13MMbbl (100% basis) from the core area and potential for further 9.4MMbbl in South West Terrace. A wellhead platform is now in place and a production barge and shuttle tanker are being installed at the well site with production start-up expected in Q2 2010. Initially 3,000 bopd gross will be delivered to Chevron's Escravos Terminal.

Pan Group and its indigenous co-venturer are currently discussing a sales transaction where the 40% working interest is sold from the Pan Subsidiary to the indigenous company for a net amount of USD 30 million. Completion of such sale has not been legally agreed and is dependent upon buyer securing necessary funding. The field has completed a test production program during 2010, and is currently shut-in due to a problem with the flowline. The field is awaiting start-up of commercial production.

Brittania-U was awarded OML 90 in March 2004 under a Marginal Field Farm-out Agreement from Chevron & NNPC.

The license was part of the Nigerian Marginal Field Round and offers attractive fiscal terms (55% PPT plus ~4% royalties) USD 18 million payment from first cash flow to be paid to the operator.

OML 113 Aje (12.19% Revenue Interest)

Pan Group has a 12.1913% revenue interest (6.502% participating interest), in OML 113 which is operated by Yinka Folawiyo Petroleum (YFP) and is located in the extreme 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.

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 estimate from 31.12.2009 (ref table in 8.6.5.6). Panoro Energy will retain an independent, third-party consultancy to review the new PSDM seismic and certify contingent resources by year-end.

Commercial agreements for transportation and sales of gas from the field have not to date been 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.

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.

The license, OPL 309, was originally awarded to YFP in July 1991 in the indigenous bid round by the Ministry of Petroleum Resources. Following the discovery of the Aje field the license was converted into OML113 in June 1998 with a 20 years lease term.

OML 113 is tax/royalty concession. There is a ~10% royalty on all production and the Nigerian deep water tax regime has 50% Petroleum Profit Tax (PPT)) and 30% Corporate Income Tax for gas

8.6.5.3 Joint Development Zone of Nigeria Sao Tome and Principe

JDZ Block 3 (10% Interest)

This deepwater exploration acreage was awarded in 2004 and contains large structures in Niger Delta toe thrusts outboard from major Nigerian discoveries (Agbami, Akpo, Usan & Ukot).

The Lemba exploration well was drilled on the block in 4Q 2009 and discovered gaseous hydrocarbons. Detailed analysis of the discovery is on-going. The PSC (Production Sharing Contract) phase 1 continues until 13th September 2010. At this point, Panoro Energy intends to relinquish the license.

8.6.5.4 Gabon

Dussafu Marin Permit (33.34% 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 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 2730 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 in late 2010/early 2011.

8.6.5.5 Republic of 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 - 34°API and waxy.

Pan Group acquired its interest in MKB in January 2010. Under the terms of the Sale and Purchase Agreement Pan Group agreed to issue to the Sellers a number of shares based upon certain performance criteria. Following the placing of US$65 million this will result in potential dilution of 2.9% if the tests set out below are met:

	Test 1	Test 2	10k bopd	15k bopd	20k bopd	30k bopd	40k bopd	Total
Number of NBH shares outstanding post USD 65m issue and merger with Pan Holding	0.2 %	0.4 %	0.7 %	0.4 %	0.4 %	0.4 %	0.4 %	2.8 %
Accumulated	0.2 %	0.6 %	1.3 %	1.7 %	2.0 %	2.4 %	2.8 %	2.8 %

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% interests. SNPC drilled two new wells (KUN-4BIS and KUN-5) in 2009 in the Kundji Field. These will be hydraulically fractured using modern techniques and put on a long term test in 2010 to demonstrate the viability of a re-development project.

The vertical well KUN-4BIS has been successfully hydraulically fractured and completed. During cleanup, the well confirmed oil flow to surface, however the well has not yet been tested through the production separator to confirm the rate. The hydraulic work-over unit has now run a completion in the KUN-5 well and has been released. Fraccing operations will shortly be commencing on the KUN-5 well and the well will subsequently be cleaned up and production tested. These operations are part of a pilot program to optimize future development of the MKB permit. The crude oil from the tests will be evacuated by truck to the nearby Djeno oil terminal and/or CORAF refinery.

Pending success on appraisal programme, the MKB joint venture will work towards a full-field development of the Kundji Field, with ongoing appraisal of the Mengo and Bindi fields continuing through 2011-2012.

8.6.5.6 Reserves and resources

The reserve and contingent resource volumes have been classified in accordance with the NPD classification system (http://www.npd.no/regelverk/r2002/Ressursklassifisering_n.htm) and are consistent with the Oslo Stock Exchange's guidelines for the disclosure of hydrocarbon reserves and contingent resources.

The table below sets out the reserves and resources per field as of year end 2009.

	Gross reserves and resources			Net share	Net reserves and resources		
Reserves (MMBOE)	1P	2P	3P		1P	2P	3P
Manati (Brazil)	115.1	157.8	179.3	10 %	11.5	15.8	17.9
Ajapa (Nigeria)	8.5	10.5	12.8	40 %	3.4	4.2	5.1
Cavalo Marinho (Brazil)	11.6	28.0	40.7	50 %	5.8	14.0	20.3
Estrela do Mar (Brazil)	0.0	8.7	10.5	65 %	0.0	5.7	6.8
Sum reserves					20.7	39.6	50.2
Resources (MMBOE)	1C	2C	3C		1C	2C	3C
Ajapa SW Terrace (Nigeria)	4.8	7.0	9.2	40 %	1.9	2.8	3.6
Aje (Nigeria)	232.1	380.0	530.0	12 %	28.3	46.4	64.7
Mengo (Congo)	59.0	170.0	475.0	20 %	11.8	34.0	95.0
Kundji (Congo)	42.0	92.0	182.0	20 %	8.4	18.4	36.4
Bindi (Congo)	28.0	62.0	113.0	20 %	5.6	12.4	22.6
Walt Whitman (Gabon)	2.7	4.4	7.1	33 %	0.9	1.5	2.4
Moubenga (Gabon)	0.9	1.3	1.9	33 %	0.3	0.4	0.6
Lemba (JDZ)	24.7	29.2	34.0	10 %	2.5	2.9	3.4
Cavalo Marinho (Brazil)	6.3	41.9	110.4	50 %	3.2	21.0	55.2
Estrela do Mar (Brazil)	17.7	21.4	49.8	65 %	11.5	13.9	32.4
Coral (Brazil)	5.7	12.0	35.3	35 %	2.0	4.2	12.4
Camarão Norte (Brazil)	6.1	7.8	10.3	10 %	0.6	0.8	1.0
Sardinha (Brazil)	12.4	22.9	32.3	20 %	2.5	4.6	6.5
Caravela Sul (Brazil)	0.0	0.0	17.7	50 %	0.0	0.0	8.8
Sum resources					79.4	163.2	345.0
Sum reserves and resources					100.1	202.8	395.2

The Company bases its investment plans on reserve reports prepared by the independent reserve engineer firms Gaffney Cline & Associates in Brazil and AGR Tracs International in West Africa.

Concession terms for production and development licenses in Brazil carry a 27-year term and are issued by the National Petroleum Agency (the Agência Nacional do Petróleo, or ANP).

8.6.5.7 Research and development, patents and licenses

In order to operate in Brazil and West Africa, the Company is dependent on certain exploration and production licenses. The Company currently holds interests in the following licenses:

Licence	Country	Interest
BCAM-40/Manati (including Camarão Norte	Brazil	10%
Sardinha	Brazil	20%
Cavalo Marinho	Brazil	50%
Estrela-do-Mar	Brazil	65%
Coral	Brazil	35%
S-M 1035	Brazil	50% (Operator)

S-M 1036	Brazil	50% (Operator)
S-M 1100	Brazil	50% (Operator)
Dussafu Marin (Gabon)	Gabon	33.34 %
OML 90 Ajapa Field (Nigeria)[3]	Nigeria	40%
OML 90 Aje Field (Nigeria)[4]	Nigeria	12.1913% revenue interest 6.502% participating interest
Mengo-Kunji-Bundi (MKB license)	Republic of Congo	20%
Block 3 (Joint Development Zone of Nigeria Sao Tome and Principe)	JDZ	10%

The Company has not had any material expenses to research and development.

8.6.6

8.6.6.1 Brazil

Brazil is a bright spot in the world of energy exploration and production today, having one of the world's largest anticipated untapped resource bases. Brazil is developing an oil exporting nation with its recent discoveries of the deep sub-salt oil fields offshore the coast of Brazil. Currently Brazil has 12.6 billion barrels of oil reserves and 365 Bcm of gas reserves (source: CIA world fact book www.cia.gov). Brazil is currently undertaking one of the world's largest exploration programs to map the extent of discoveries such as Tupi. The state controlled oil major Petrobras is the leading oil and gas company in the region and is also partner with Norse in its licenses. As an early entrant since oil deregulation in 1997, Norse Energy Corp. established a significant presence through its acquisitions of proven reserves, as well as building productive relationships with the Brazilian authorities, financial institutions and Petrobras.

8.6.6.2 West Africa

Nigeria – regional overview

With a production capacity of over 3.2 million bopd, Nigeria is the largest producer in Africa and the fifth largest in OPEC. Nigeria holds the second largest oil reserves and the largest natural gas reserves in Africa. According to the BP Statistical Review of World Energy (June 2009), Nigeria holds the seventh largest natural gas reserves in the world. Most of Nigeria's 36 billion barrels of proven oil reserves are located onshore, in over 250 fields of around 50 million barrels each, along the coast of the prolific Niger Delta region (Source: IHS Global Insight Report: Nigeria (Energy)). The country is heavily dependent on its oil industry and oil revenue accounts for 90-95% of foreign-exchange earnings and 80% of government revenue. The Nigerian government has set a target of achieving four million bopd, but is unlikely to achieve this target until 2012, at the earliest. According to the BP Statistical Review of World Energy (June 2009), the country is estimated to have in excess of 184 Tcf in gas reserves and the Federal Government has introduced a gas master plan that will end gas flaring and monetise its resources. Nigeria is pursuing a

number of new policy directions with the aim of restructuring its upstream and deregulating its downstream sectors.

The most significant issue facing Nigeria is the continued violence and militant activity in the Niger Delta region, which has led to long term shut ins of up to 40% of the country's production capacity. According to the BP Statistical Review of World Energy (June 2009), in 2008, Nigeria produced an average of 2.17 million bopd and 2.7% of the world total.

Gabon – regional overview

Gabon is one of West Africa's oldest oil producers, peaking at 370,000 bopd in 1997 (Source: US Department of State: Gabon). The country is the fourth largest oil producer in sub-Saharan Africa, producing an average of 235,000 bopd in 2008, 0.3% of the world total and holds the fourth largest oil reserves in the region (Source: BP Statistical Review of World Energy (June 2009). As such the upstream oil industry plays a critical role in the economy, representing approximately 80% of the country's export. Exports of crude oil account for approximately 60%.of the government's budget and more than 40% of its gross domestic product.

The Gabon basin is a classic passive margin pull-apart basin that developed as a result of continental rupture and the subsequent separation of South America from Africa. The striking feature of the basin is a widespread evaporate (salt) layer that separates two distinct sedimentary sequences (the pre-salt and the post-salt sequences). Basement faulting associated with extensional (rift) tectonics has structurally influenced the pre-salt sediments. The post-salt sediments have been widely disrupted by halokinetic movement of the underlying salt. Both the pre-salt and post-salt sediments are oil-bearing.

The prospective Aptian Gamba sandstone is a proven producer in many neighbouring fields in the basin, including CNR's Olowi oil and gas field (200 mmbbl and 600 bcf in place). Drilling targets are dip-closed structures beneath the Loeme salt. Seismic imaging of such structures presents a technical challenge which has been addressed through the reprocessing of seismic data and acquisition and study of potential field data.

In 2008, Gabon had the highest level of activity in West Africa with 11 exploration and appraisal wells onshore and nine offshore and seven licences were awarded (Source: Wood Mackenzie, Upstream Insight, Sub-Sahara Africa exploration review 2008. The delayed 2008 Gabonese deepwater bid round is scheduled in 2010.

Republic of Congo (Brazzaville) – regional overview

The entire coastal area of Congo lies within the Congo Basin. The northern limit of the basin is the Mayumba Spur in southern Gabon, a basement high, which separates it from the Gabon Basin to the north. The Congo Basin extends as far south as the Ambriz spur offshore mainland Angola. All the productive oil fields of Congo-Brazzaville, Cabinda, the Democratic Republic of Congo and northern Angola lie within this basin. The Congo Basin shows the characteristic features of a pull-apart basin. The basement rocks that outcrop to the east are progressively downfaulted to the west by a series of normal faults.

The faults generally run north-south, paralleling the basement outcrop. In Congo, the eastern edge of the basin, where the basement outcrops, is roughly 50 km inland. The edge of the offshore shelf area (regarded as being at the 200-metre isobath) lies about 60 km offshore. The Congo Basin, like the Gabon basin, contains a widespread evaporate (salt) layer that separates two distinct sedimentary sequences (the pre-salt and the post-salt sequences). The basement faulting associated with extensional (rift) tectonics has structurally influenced the pre-salt sediments. The post-salt sediments have been widely disrupted by halokinetic movement of the underlying salt. Both the pre-salt and post-salt sediments are oil-bearing.

Congo produces an average of 249,000 bopd in 2008 and 0.3% of the world total (Source: BP Statistical Review of World Energy (June 2009)). Congo contains the fourth largest proven natural gas reserves in sub-Saharan Africa (Source: US Department of Energy, Energy Information Administration).

The Pan Group has historically had no income.

8.6.6.3 Segment information

Panoro Group currently sells all the natural gas and condensate to one buyer, Petrobras. An overview of the net sales is provided in the table below:

Year	Period	Panoro Energy (USD 000)
Q2 2010	Six months	19,931
2009	Full year	34 650
2008	Full year	73 551
2007	Full year	46 621

The net sales for Panoro Energy for the years 2009, 2008 and 2007 correspond to the NEC ASA Annual Reports – Brazil E&P segment figures for these years. The Q2 2010 YTD figure correspond to the revenue from the Manati producing field in Brazil as reported by Panoro Group.

8.6.7 Legal and Arbitration Proceedings and Material Contracts

The Company and its subsidiaries are currently involved in the following legal disputes:

- The Company's Brazilian subsidiary, NEdB, is a party in a lawsuit filed by the Municipality of Cairu- Bahia, against ANP – Brazilian Petroleum Agency, Petrobras, Queiroz Galvão Oleo & Gas and Brasoil Manati Exploração Petrolífera, June, 2008. The Municipality of Cairu is demanding that the concession agreement is declared invalid and that the royalty is increased from the current rate of 7.5% to 10%. In addition the municipality claims that the difference of 2.5% is paid with retroactive effect from the startup date. The Company's legal advisors in the process evaluate the risk of financial liabilities associated with this lawsuit as remote. No accrual has been made related to this issue.
- The Association of Petrobras Engineers ("AEPET") filed a lawsuit against The Brazilian Petroleum Agency (ANP) and all companies that bid on concessions in the ANP 3rd Round. The purpose of this lawsuit was to annul the 3rd Bid Round as well as all the concession contracts signed as a result of this bid round. Since the Company's subsidiary Rio das Contas acquired the concessions in BM-CAL 5 & 6 that was granted to Petroserv in this bid round, the Company was summoned to reply to the lawsuit. The Company evaluates the risk related to this lawsuit to be remote as the arguments used to annul the 3rd Bid Round and signed concession contracts are inconsistent, and are against previous jurisprudences of the Court of the State of Rio de Janeiro. No accrual has been made related to this lawsuit.
- The Company's subsidiary Rio das Contas is a party in two lawsuits filed by the Fishermen Association in the Manati Project region demanding indemnification for environmental damages as a result of alleged non-implementation of the compensatory measures established on the Environmental studies and reports part of the Environmental Licensing Process. There was a subsidiary request for an injunction to suspend the activities of implementation of the platform, pipeline and all infrastructure related to the project, which was not granted by the Court. The

Company evaluates the risk associated with this law suit as remote since the basic argument is that the implementation of the Manati project has caused environmental damages, but throughout the petition there was no indication of a concrete damage. The issuance of the IBAMA Operation License further strengthens the Company's case. No accrual has been made related to these lawsuits.

- The Company's subsidiary Coplex Petróleo do Brasil Ltda, is under an administrative proceeding with the tax authorities regarding PIS (Social Integration Program) and COFINS (Social Securities on Revenues) levied on financial revenues, which on December 31, 2008, totaled approximately USD 1 million. On a first jurisdiction the decision was favorable to Coplex, however a second level judgment is ongoing in order to receive a final decision. Based on the opinion of the Company's legal advisors, we believe the risk of loss is considered remote. Accordingly, no accrual has been made in the financial statement related to this administrative proceeding.
- The Company's subsidiary Coplex Petróleo do Brasil Ltda is under a legal suit (tax collection) filled in May 2009 which origin was two administrative proceedings with the tax authorities regarding the payment of PIS (Social Integration Program) and COFINS (Social Securities on Revenues), totaled approximately R$ 1.411.964,37. The taxes under discussion have already been paid. Proof of the payments is done and a response from tax authorities is waited.

The Company has entered into contracts that are customary for international oil and gas companies

Except for the matters described above the Company is not involved in any legal or arbitration proceedings, which may have, or have had in the recent past significant effects on the Company's or the Company's financial position or profitability. The Company is further not aware of any such proceedings that are pending or threatened, nor has the Company been involved in any such proceedings during the last 12 months.

The joint operating agreements related to the BM-CAL 5 and BM-CAL 6 blocks and to the Cavalo Marinho field, the Coral field and the Estrela do Mar field establishes a right of first refusal for partners and where the Merger may be a trigger event. Certain of Pan's field interests are subject to preemptive rights that in the Company's opinion will not be triggered by the Transaction.

8.6.8 Regulatory Consents relevant to the Merger

There are outstanding regulatory issues pending regarding the Company's licenses in Nigeria. The field interests were initially assigned to the Nigerian holding companies in 2007 and these assignments were approved by the Nigerian Department of Petroleum Resources ("DPR") in 2007. Following Pans' acquisition of share ownership in 2008 and 2009, new approvals from DPR are however required. The Addendum to the BCA (as enclosed in the Merger Plan) provides the Company with a guarantee for the event that the OML 90 (Ajapa) license should not be received within 2010. The Company does not expect issues with respect to regulatory consent for the OML 113 (Aje) and JDZ 3 licenses.

The Merger is likely to require a further consent from DPR, as an indirect assignment of the Nigerian licenses. The Company expects to receive the necessary consents.

8.6.9 Capital Resources

In the opinion of the Company, the proceeds of the Private Placement, cash generated from operations and opening cash balances is sufficient working capital to cover the Company's present requirements for a period of at least 12 months.

Following the restructuring of NEC's bond debt, which was completed on 29 June 2010, and it finalisation of the restructuring of the Brazilian bank debt the Company will have the following principal payment schedule for its bank and bond debt:

	Loan balance as of 30 June 2010					
	2010	2011	2012	2013	>2014	Total
Brazil						
BNDES I	3,9	7,8	7,8	4,8		24,3
BNDES II	0,2	2,5	2,5	2,5	12,4	20,1
Treasury Loan	0	8,3	8,3	8,3	8,2	33,2
Norway						
NEC01 (NOK)	6,6	18,1	18,1			42,7
Cyprus						
Sector Loan (USD)	10,2	0	0	0	0	10,2
Total	20,9	36,7	36,7	15,6	20,6	130,5
Cash and cash equivalents						56,3
Net interest bearing debt						74,2

The NEC01 prepayment of USD 6.6 million + accumulated interests was made to NEC 01 bondholders in July 2010.

8.7 PRO FORMA FINANCIALS

8.7.1 Purpose of the unaudited pro forma financial information

The unaudited pro forma condensed financial information has been prepared in connection with the listing of additional shares of Panoro Energy ASA (the "Company") on Oslo Børs (Oslo Stock Exchange) to comply with the Norwegian Securities Trading Act and the applicable EU-regulations pursuant to section 7-7 of the Norwegian Securities Trading Act. This information is not in compliance with SEC Regulation S-X, and had the securities been registered under the U.S: Securities Act of 1933, this unaudited pro forma financial information, including the report by the auditor, would have been amended and / or removed from the offering document.

At an extraordinary general meeting of the Company on 26 April 2010, a merger between the Company and Pan-Petroleum Holding AS ("Pan Holding") was approved (the "Pan Merger"). The Pan Merger was completed on 29 June 2010 with Pan Holding as the assigning entity and Panoro Energy ASA as the acquiring entity.
The unaudited pro forma financial information presented below has been prepared for illustrative purposes only to show how the the Pan Merger would have impacted Panoro Energy ASA if it had occurred on 1 January 2010 for the purpose of the unaudited pro forma condensed income statement for the six months ended 30 June 2010 and on 1 January 2009 for the purpose of the unaudited pro forma condensed income statement for the year ended 31 December 2009.

As the Pan Merger that was completed as of 29 June 2010 are fully reflected in the unaudited Statement of Financial Position as of 30 June 2010 no pro forma balance sheet has been prepared.

8.7.2 Basis of preparation

The unaudited pro forma income statement for 2009 has been prepared based on the consolidated audited income statement of the Pan Group, the unaudited consolidated carve out income statement for the Brazil Group and the audited income statement of Panoro Energy for 2009. This financial information has been prepared based on accounting policies compliant with IFRS. Reference is made to Appendix 10 for Pan Group's annual financial statements and section 6 for the carved out financial statements of the Brazil Group.

The unaudited pro forma income statement for the six months ended 30 June 2010 has been prepared based on the unaudited consolidated income statement of Panoro Energy ASA for the six months ended 30 June 2010 as presented in the Q2 2010 Quarterly report included as appendix 2 to this prospectus, and the unaudited consolidated income statement of the Pan Group for the 6 months ended 30 June 2010.

The unaudited pro forma consolidated financial statements have been prepared using accounting policies consistent with IFRS as adopted by EU (IFRS). The unaudited pro forma financial information has been prepared using accounting policies consistent with Panoro Energy ASA's 2Q 2010 interim condensed consolidated financial statements which can be referred to in Appendix 2. The unaudited pro forma financial information includes unaudited pro forma condensed income statement and descriptions and notes to the unaudited pro forma financial information, but does not include statements of changes in equity and cash flows or disclosures in notes to the accounts that would be required to be a complete set of financial statements in accordance with IFRS
and should be read in conjunction with the Q2 2010 Quarterly report for the combined Panoro Group and annual financial statements of Pan Group and Norse Energy Corporation.

For the purpose of the 2009 unaudited pro forma income statement, the assumption is to simulate the income and expenses of the combined entity assuming merger had already taken effect on 1 January 2009. Panoro Energy ASA (parent) did not have any activity or results in 2009. Income statement of Pan Group have been included as historical information from 1 January 2009 to 31 December 2009.

Information for Panoro Energy ASA pre-merger results has been prepared in accordance with IFRS using the principles and policies as disclosed in the Q2 2010 quarterly report of the Panoro Group for the six months ended 30 June 2010. These statements can be referred to in Appendix 2 to this prospectus.

8.7.3 Accounting for the Merger

As per the requirements of the IFRS, the Company (Panoro Energy ASA) is the legal acquiring party in the Merger.

For the purpose of the 2Q 2010 financial statements the merger of Pan Group is concluded to qualify as a business combination as defined in IFRS 3. For accounting purposes the net assets of the acquiree have been presented at fair value in the Statement of Financial position as of 30 June 2010 in the Q2 2010 quarterly report attached in appendix 2. It has been concluded that the Company is the acquirer for IFRS accounting purposes.

A provisional Purchase Price Allocation has been prepared identifying Pan Group's assets, liabilities and contingent liabilities and necessary adjustments are being made to the Group's statement of financial position. The carrying values of net assets of the acquirer are not affected.

IFRS 3 allows changes to the provisional fair values within one year from the acquisition date, provided that the changes are a result of acquirer obtaining additional information about uncertainties that existed at the acquisition date. These changes are recognised as adjustments against the original accounting for acquisition.

8.7.4 Uniform and consistent accounting policies

Both Panoro Energy ASA and Pan Group are reporting in accordance with IFRS. Preliminary analyses have been performed to identify any differences in the application of IFRS. Different accounting practice has been identified related to the application of IFRS 6 - Exploration for and Evaluation of Mineral Resources - both in compliance with the standard. This has been adjusted for in the unaudited pro forma income statement (see note 1).

As regards description of accounting policies and disclosures, reference is made to information disclosed in notes to the interim condensed consolidated financial statements of the Panoro Energy ASA included in appendix 2.

8.7.5 Limitations

Because of its nature, the unaudited pro forma financial information addresses a hypothetical situation and, therefore, does not represent the Company's actual financial position or results. Investors are cautioned not to place reliance on this unaudited pro forma financial information. The pro forma financial information is given to comply with the Norwegian Securities Trading Act and the applicable EU regulations pursuant to section 7-7 of the Norwegian Securities Trading Act and for no other purpose.

Unaudited pro forma condensed income statement for the six months ended 30 June 2010

PRO FORMA FINANCIAL INFORMATION - INCOME STATEMENT	The Panoro Group Unaudited 2Q	The Pan Group Unaudited 2Q	Alignment of accounting policies	NEC -01 Loan interest	Pro forma Unaudited
Amount in USD 000	2010 (YTD)	2010 (YTD)	2010 (YTD)	YTD 2Q 2010	Q2 YTD 2010
			Note 1	Note 2	
OPERATING REVENUE AND EXPENSES					
Oil and Gas revenue	19 931	-	-	-	19 931
Other income	251	527	-	-	778
Total revenues and other income	*20 182*	*527*	*-*	*-*	*20 709*
Production costs	(2 118)	-	-	-	(2 118)
Exploration and dry-hole costs	(4 740)	-	(4 329)	-	(9 069)
General and administrative costs	(5 057)	(4 552)	-	-	(9 609)
Share-based payments	-	(4 206)	-	-	(4 206)
Merger and restructuring costs	(5 458)	(1 202)	-	-	(6 660)
EBITDA	*2 809*	*(9 433)*	*(4 329)*	*-*	*(10 953)*
Depreciation	(3 777)	(83)	-	-	(3 860)
EBIT - Operating income / (loss)	*(968)*	*(9 516)*	*(4 329)*	*-*	*(14 813)*
Gain on acquistion of subsidiary	2 931	-	-	-	2 931
Net finance income / (costs)	(9 781)	(252)	-	(435)	(10 468)
Net foreign exchange gain / (loss)	(2 560)	(155)	-	-	(2 715)
Warrants effect - gain/(loss)	(577)	-	-	-	(577)
Income / loss before tax	*(10 955)*	*(9 923)*	*(4 329)*	*(435)*	*(25 642)*
Income tax expense / (benefit)	(2 385)	(56)	-	-	(2 441)
Net income / (loss) for the period	*(8 570)*	*(9 867)*	*(4 329)*	*(435)*	*(23 201)*

Unaudited pro forma condensed income statement 2009

PRO FORMA FINANCIAL INFORMATION - INCOME STATEMENT Amount in USD 000	Panoro Energy ASA audited FY 09	The Brazil Group Carve out unaudited FY 09	Pan Group audited FY 09	Alignment of accounting policies FY 09	NEC-01 adjustment FY 09	Transaction costs FY 09	Pro forma Unaudited FY 09
				Note 1	Note 2	Note 3	
OPERATING REVENUE AND EXPENSES							
Oil and Gas revenue	-	34 650	-	-	-	-	34 650
Total revenues and other income	*-*	*34 650*	*-*	*-*	*-*	*-*	*34 650*
Production costs	-	(4 002)	-	-	-	-	(4 002)
Exploration and dry-hole costs	-	(14 160)	-	(6 177)	-	-	(20 337)
General and administrative costs	-	(11 473)	(9 539)	-	-	-	(21 012)
Merger and restructuring costs	-	-	-	-	-	(6 660)	(6 660)
Impairment	-	(13 679)	(24 489)	-	-	-	(38 168)
EBITDA	*-*	*(8 664)*	*(34 028)*	*(6 177)*	*-*	*(6 660)*	*(55 529)*
Depreciation		(6 809)	(135)	-	-	-	(6 944)
EBIT - Operating income / (loss)	*-*	*(15 473)*	*(34 163)*	*(6 177)*	*-*	*(6 660)*	*(62 473)*
Expenses relating to acquisition of mino	-	-	(2 873)	-	-	-	(2 873)
Net finance income / (costs)	-	(13 176)	45	-	(512)	-	(13 643)
Net foreign exchange gain / (loss)	-	24 649	477	-	-	-	25 126
Other financial items		283					283
Income / (loss) before tax	*-*	*(3 717)*	*(36 514)*	*(6 177)*	*(512)*	*(6 660)*	*(53 580)*
Income tax expense / (benefit)	-	4 283	729	-	-	-	5 012
Net income / (loss) for the year	*-*	*(8 000)*	*(37 243)*	*(6 177)*	*(512)*	*(6 660)*	*(58 592)*

Unaudited notes to the pro forma condensed income statements and pro forma adjustments to the unaudited pro forma financial information.

All amounts in this section are presented in USD 000 unless otherwise specified.

Note 1 Alignment of accounting policies – Exploration costs

As per the requirements of IFRS6 – Exploration for- and evaluation of Mineral Resources – different accounting policies are accepted regarding accounting treatment of Exploration costs. Certain exploration costs prior to production may be capitalized or charged as an expense.

The policy for the Panoro Group (including Brazil) as disclosed in the 2Q 2010 interim financial statements has been to charge exploration costs to the income statement except for drilling costs which are capitalised, but charged as an expense if the well is proven dry. In the Pan Group all exploration costs have been capitalised. As a result, adjustments have been made to the 2009 un audited pro forma income statement to

ensure consistency of accounting policy across the Merged entity thereby charging non-well related cost of USD 6,177 thousand as an expense.

This adjustment is of a continuing nature.

Note 2 Alignment of accounting policies

The NEC 01 loan was renegotiated with bondholders, who approved a restructuring proposal in December 2009 at market terms. The demerger of Norse Energy was a prerequisite for the bond loan restructuring and the bond loan restructuring was necessary in order to secure the merger. The loan cost has been pro forma adjusted accordingly to reflect a situation as if the re-structuring was effective as of 1 January 2010, and 1 January 2009 respectively.

The interest expense under the original terms is included in the Q2 2010 Quarterly report for the combined company and the 2009 Brazil Group Carve Out. The pro forma represents the effect of the renegotiated terms (effective interest calculated at 14.5 %) on Panoro Energy's interest expense for the period 1 January to 30 June 2010 and for 1 January to 31 January 2009.

The adjustments also take into account the fact that, under the bond loan restructuring agreement, NOK 43 million was payable in July after the merger was effective. As a result, an adjustment has also been made to the annual interest charge to reflect the effects of this repayment. For the purpose of pro forma adjustments it has been assumed that the amount was repaied at 1 January 2009 and 2010 respectively.

The 2010 effect has been calculated as follows:

	NOK	Ex rate	USD
Nec 01 in issue	-286 500 000		
Nec 01 controlled by Panoro	5 000 000		
Repayment	43 000 000		
Capitalized Transaction Cost	5 980 000		
Net interest base	-232 520 000		
Effective interest (including amortization)	*14,50 %*		
180 days interest and amort expense	-16 857 700	6,22	-2 708 784
Less June 2010 YTD interest and amortization included in actuals	*14 153 196*	*6,22*	*2 274 210*
Proforma adjustment	-2 704 504		-434 574

The 2009 effect has been calculated as follows:

	NOK	Ex rate	USD
Nec 01 in issue	-286 500 000		
Nec 01 controlled by Panoro	5 000 000		
Capitalized Transaction Cost	5 980 000		
Repayment	43 000 000		
Net interest base	-232 520 000		
Effective interest (including amortization)	*14,50 %*		
360 days interest and amort expense-proforma	-33 715 400	6,15	-5 482 179
Less Historically unadjusted NEC01 interest 2009			-4 970 000
Pro forma adjustment			-512 179

Note 3 Transaction cost

Consistent with the 2010 actuals, the merger costs of USD 6.6 million has been included in the 2009 unaudited pro forma income statement as an expense in accordance with IFRS 3.

This adjustment is a non-recurring item and has arisen as a consequence of the merger.

Note 4 Tax effects of pro forma adjustments

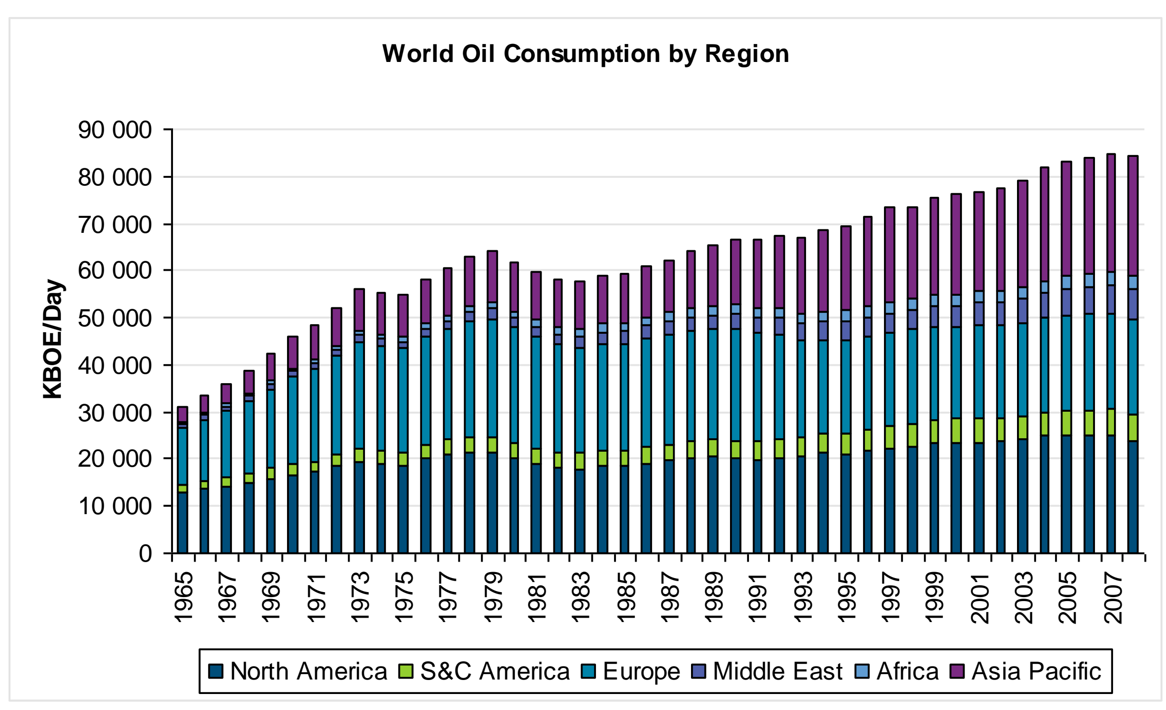
The Panoro Group is not in a taxable position as per the unaudited pro forma income statements of 2009 and 2Q 2010 and therefore no adjustments in relation to tax are necessary.

9. MARKET OVERVIEW

This Section may include "forward-looking" statements. See further presentation of such statements in Section 4 "Notice regarding forward-looking statements". Some important factors that could cause actual results to differ materially from those in the forward-looking statements are, in certain instances, included with such forward-looking statements and in the Section 2 "Risk Factors" in this Prospectus. Given the aforementioned uncertainties, prospective investors are cautioned not to place undue reliance on any forward-looking statements.

9.1 THE ENERGY MARKET

The oil and gas market is an integral part of the world economy and the world's energy consumption has increased more or less constantly up to 2007 when the financial crisis started. The growth has been driven by the strong economic development in the Asian Pacific countries, and has primarily been related to the consumption of oil, together with natural gas and coal. The use of nuclear energy and hydroelectric energy has however stagnated. The oil market is an integral part of the world economy, where demand moves in line with the general economy. This could be seen in 2008 when the consumption of oil decreased by 0.5% in the wake of the downturn in the world economy. The International Monetary Fund (IMF) estimates in its April 2010 report "World Economic Output – Rebalancing Growth" world economic growth, measured by real GDP growth, at 3% in 2010 driven by a 10% growth in China and 8.8% growth in India's economies. Due to the close correlation between economic growth and oil demand, the International Energy Agency (IEA) in its April 2010 report "Oil Market Report" estimates growth in oil demand to 86.6 Mbd in 2010, a growth of 1.7 Mbd compared to 2009. Long-term, IEA in its November 2009 report "World Energy Outlook" estimates the world's demand for oil is expected to grow to 105 Mbd in 2030 according to IEA which represents an annual growth rate of approx. 1%.



Source: BP databases, Statistical Review of World Energy 2009 (http://www.bp.com/subsection.do?categoryId=9023761&contentId=7044545)

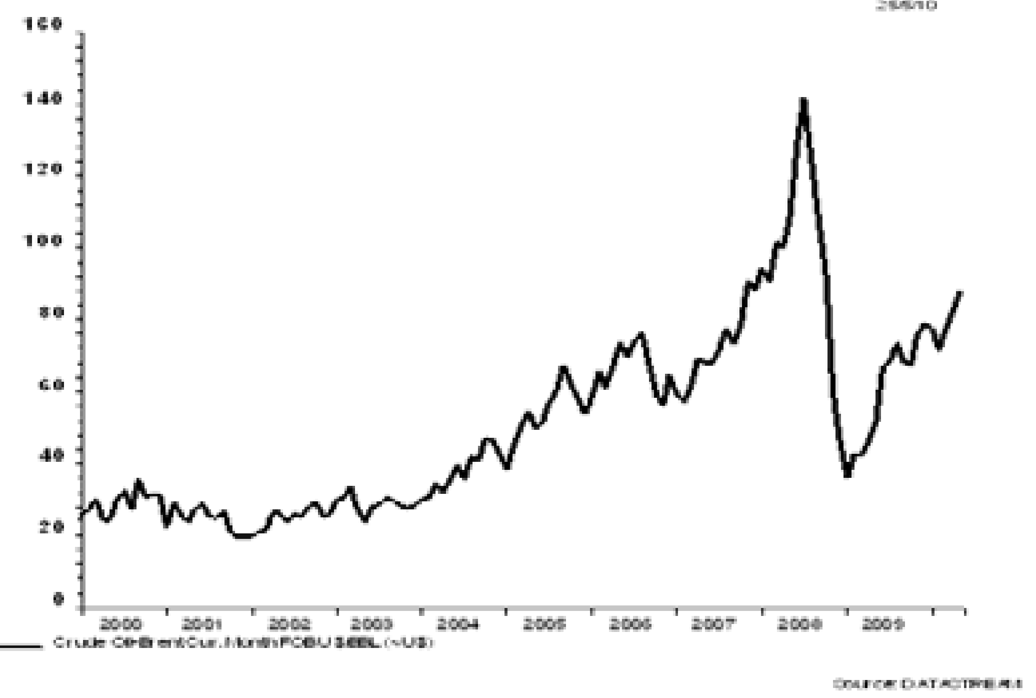
9.2 OPEC'S ROLE IN THE OIL MARKET

OPEC (http://www.opec.org/opec_web/en/) is an international organization of twelve countries, which are heavily reliant on oil revenues as their main source of income. Membership is open to any country which is a substantial net exporter of oil and shares the ideals of the organization. The current members are Algeria, Angola, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, the United Arab Emirates and Venezuela.

Twice a year, or more frequently if required, the Oil and Energy Ministers of the OPEC countries meet to decide on the organization's output level and consider whether any action to adjust output is necessary in the light of recent and anticipated oil market developments. During the period in 2005-2008 with strongly increasing energy prices it was questioned whether OPEC had the control over the price setting in the oil market. Regardless, it is clear that OPEC has regained more control over prices as the cartel has reduced output and it is estimated that OPEC currently have in excess of 5% spare production capacity compared to close to no spare capacity in 2007-08.

9.3 THE OIL PRICE

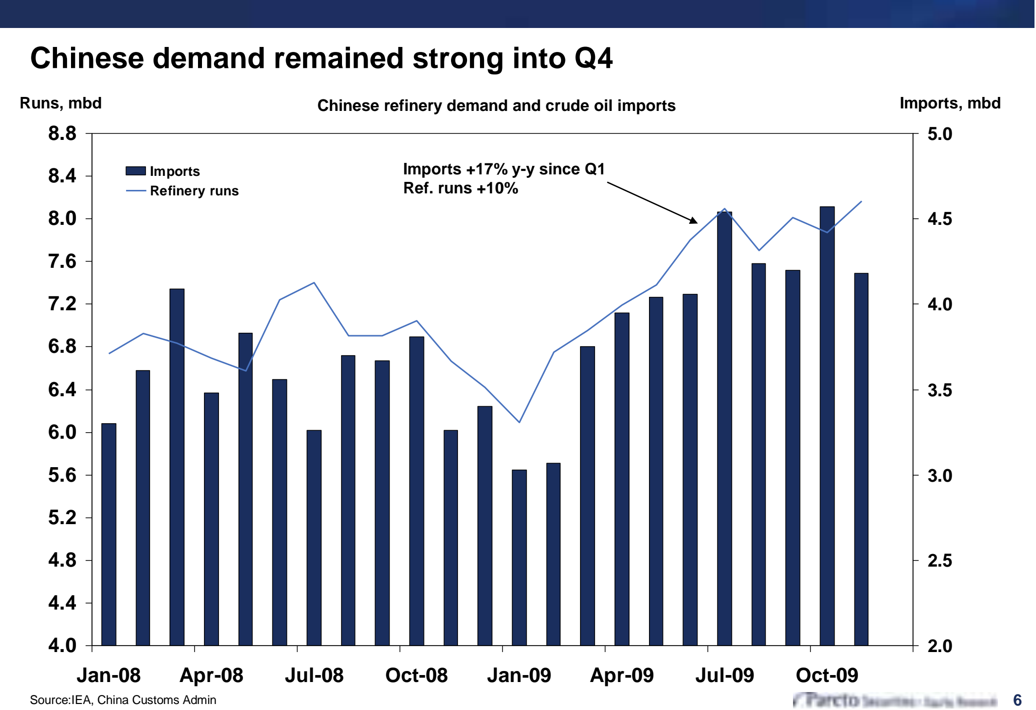
Currently (15 August 2010) the oil price is around USD 75-80 per barrel (Brent) which, despite of the drop in Q2 due to concerns related to sovereign debt and government deficits to the economies of Portugal, Ireland, Italy, Greece and Spain (PIIGS), is close to double the prices seen in early 2009 in the midst of the financial crisis that started in 2007/2008. The oil price reached an all time high in the first half of 2008 at USD ~145 per barrel on shortage in supply and a strong demand side yet to be impacted by the evolving financial crisis. Strong demand for energy combined with limited supply, limited spare production capacity in OPEC, supply disruption in key regions like Russia, the Middle East and West Africa, and the risk of gas shortage in North America were the main reasons for the record-high prices in 2008. The collapse of major financial institutions and general slow-down in activity spreading throughout the economy in 2008 pulled oil prices down more than USD 100 per barrel. Since then the oil price has rebounded sharply on back of "contango trade" whereby oil has been bought and held in storage and sold at higher forward prices (effectively taking oil supply off the market) in addition to the very effective cuts in OPEC production. This coupled with a rebound in the economic activity and continued growth in China are believed to be the main reasons for oil prices rebounding to its current level of ~USD 75 per barrel.



Development in oil price last 10 years (Brent Crude current month USD/barrel)

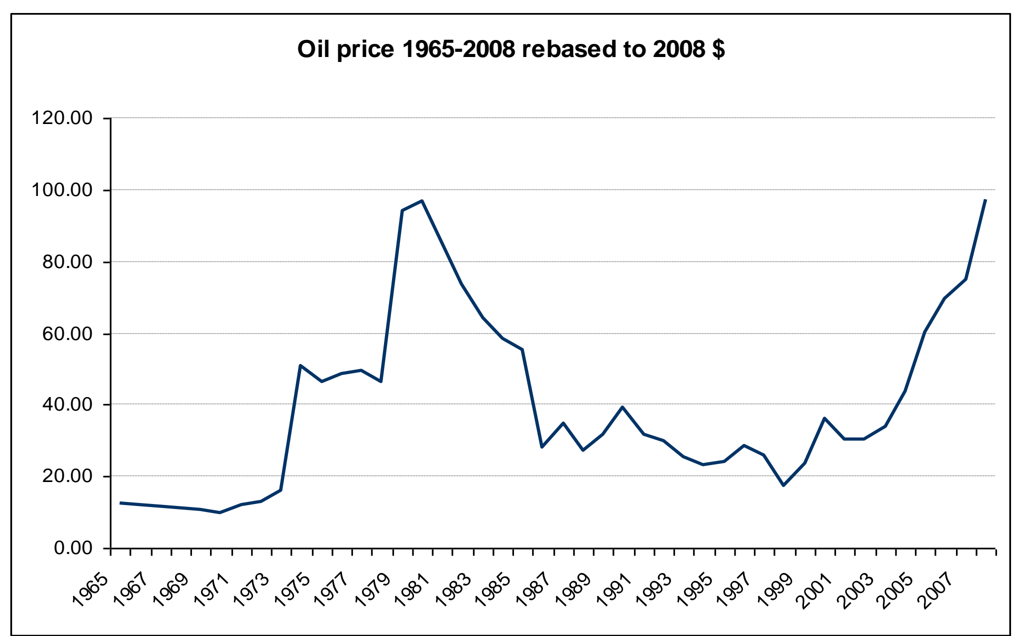
Source: Datastream 2010 (Nominal prices) (subscription software)

Chinese demand supporting the current oil price:



Source: Pareto Securities AS Equity Research 2010: Energy Information Agency (http://tonto.eia.doe.gov/dnav/pet/pet_pnp_wiup_dcu_nus_w.htm), China Customs Administrations 2010 (http://www.uschina.org/info/index.php#trade).

The graph below shows the oil price adjusted for inflations rebased to 2008 USD and we see that the high oil prices seen recently is actually in line with the previous peak in the early 1980's.



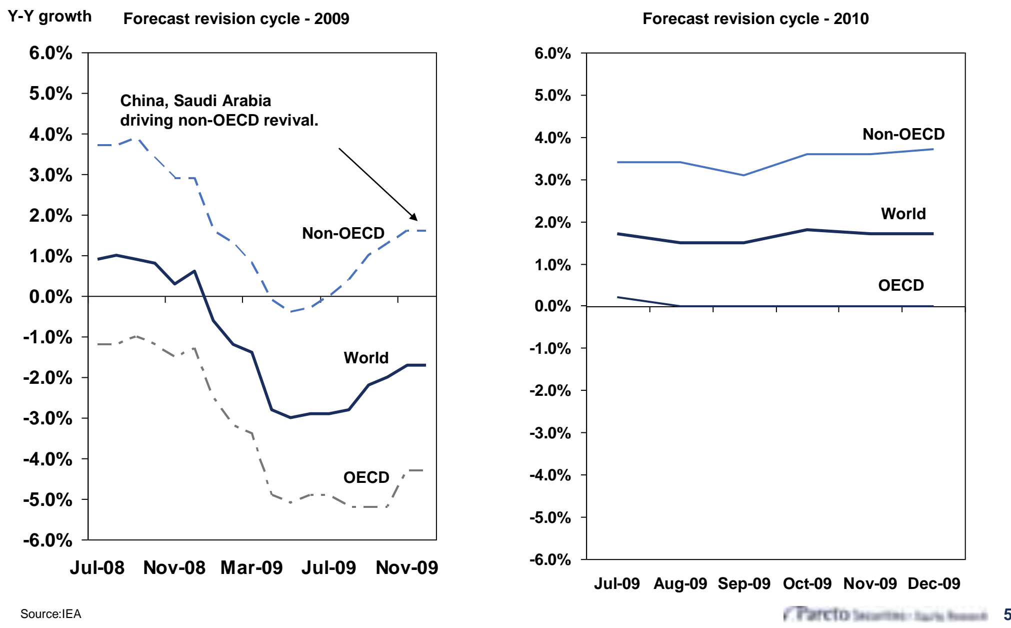
Source: BP statistical review 2009, Statistical Review of World Energy (http://www.bp.com/subsection.do?categoryId=9023761&contentId=7044545)

The oil price is affected by a number of factors including changes in supply and demand, OPEC regulations, weather conditions, US dollars compared to other currencies, regulations from domestic and foreign authorities, political and economic conditions and the price of substitutes.

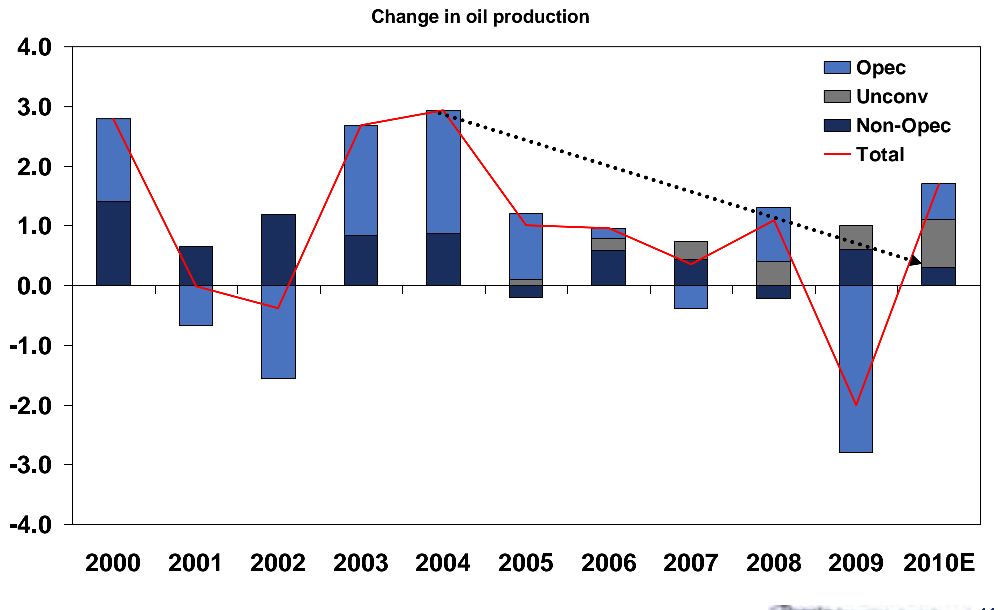
The use of oil with respect to the total energy consumption has also increased, but it must be noted that the market is dynamic and that means that the demand for oil is inversely linked to the price. Longer periods of high oil prices can therefore lead to increased use of alternative energy sources at the cost of oil demand.

9.4 THE BALANCE IN THE OIL MARKET

The International Energy Agency (IEA) has started upward revisions of their oil demand forecast as indicated by the graph below. Since 2Q 2009 the expected global demand for oil is revised up from -3% to only -1% for the whole year 2009. For 2010 the agency expects a 2% demand growth for oil and this estimate has remained more or less stable throughout the period. Continued long-term growth in demand for energy, and especially oil, has been difficult to meet for the oil market that characterized by gradual depletion of old fields and continued decline in supply as shown on the second graph below.



Source: International Energy Agency (IEA)2010 (http://www.iea.org/stats/index.asp)



Source: Pareto Securities AS Equity Research 2010

10. BOARD OF DIRECTORS, MANAGEMENT AND EMPLOYEES

10.1 BOARD OF DIRECTORS

Overview

The Board is responsible for administering the Company's affairs and for ensuring that the Company's operations are organized in a satisfactory manner.

The following table sets forth, as the date of this Prospectus, the number of options and shares beneficially owned by each of the Company's directors:

Name	Position	Has served since	Term expires	Options held	Shares held
Dr Phil Vingoe	Chairman	August 2010	AGM 2012	375,000	1,339,669
Katherine H. Støvring	Board member	December 2009	AGM 2012	None	None
Ragnar Thor Grundtvig Søegaard	Board member	May 2010	AGM 2012	None	53,000
Christine M.K. Wheeler	Board member	August 2010	AGM 2012	None	None
Tord Pedersen	Board member	August 2010	AGM 2012	None	47,957

Description of the board members

The Company's Board of Directors consists of the following members:

Dr Phil 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 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 manager of various multi-disciplinary teams to Director.

Dr Vingoe is a British citizen and resides in the UK. Business address: c/o Panoro Energy ASA, 43-45 Portman Square, London W1H 6LY, United Kingdom

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. Business address: Simonsen Advokatfirma DA, C. J. Hambros plass 2D, PO Box 6641 St. Olavsplass, 0129 Oslo, Norway.

Ragnar Søegaard, Non-Executive Director. Mr Søegaard has over the last 16 years worked as CFO in the E-Co Energi Brazil 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 Søeegard is a Norwegian citizen and resides in Oslo, Norway. Business address: c/o Norse Energy Corp. ASA, Dronning Maudsgate 1-3, PO Box 1885 Vika, 0124 Oslo, Norway

Tord Pedersen, Non executive Director. Tord Pedersen 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, including 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 $150 million and Mr. Pedersen has continued in the position of Managing Director for the new company. 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.. Tord holds a degree in geology from the University of Trondheim (1981).

Mr Pedersen is a Norwegian citizen and resides in Oslo, Norway. Business address: c/o Norse Energy Corp. ASA, Dronning Maudsgate 1-3, PO Box 1885 Vika, 0124 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 US$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. Business address: 43-45 Portman Square, London W1H 6LY, United Kingdom.

10.2 MANAGEMENT

Overview

The senior management is responsible for the daily management and the operations of the Company.

Description of the 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 1st 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.

Mr. Solbrække is a Norwegian citizen and resides in London, UK. Business address: Panoro Energy ASA, 43-45 Portman Square, London W1H 6LY, United Kingdom

Anders Kapstad. Chief Financial Officer. Mr. Kapstad joined Norse Energy Corp 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.

Mr. Kapstad is a Norwegian citizen and resides in Oslo, Norway. Business address: Panoro Energy ASA, Dronning Maudsgate 1-3, PO Box 1885 Vika, 0124 Oslo, Norway

Nishant Dighe. Chief Operating Officer

Nishant Dighe is currently COO of Pan-Petroleum. 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 rejoined the oil industry working for Sasol International, its upstream arm, working in both East and West Africa. Mr Dighe and Phil Vingoe founded Pan-Petroleum in 2007.

Nishant Dighe is a British citizen and resides in London, UK. Business address: Panoro Energy ASA, 43-45 Portman Square, London W1H 6LY, United Kingdom

Thor A. Tangen: EVP Field Development. He has 35 years of experience in the upstream Oil & Gas sector, mainly with Norsk Hydro and Statoil. Mr. Tangen 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. Business address: Panoro Energy ASA, Dronning Maudsgate 1-3, PO Box 1885 Vika, 0124 Oslo, Norway

Alistair Stobie: EVP New Ventures

Mr Stobie has over 15 years of experience of investing in and operating oil and gas businesses in emerging markets, principally Russia and the former Soviet Union. Prior to joining Pan-Petroleum, Mr Stobie was CFO of Volga Gas, an AIM listed E&P business in European Russia. Initially in Russia he worked for Baring Vostok Capital Partners a leading FSU focused private equity firm. After Baring Vostok, Alistair worked for Urals Trading and a Burren Energy subsidiary establishing new business ventures in Russia.

Business address: Panoro Energy ASA, 43-45 Portman Square, London W1H 6LY, United Kingdom

10.3 THE NOMINATION COMMITTEE

Panoro Energy ASA shall according to its Articles of Association have a nomination committee consisting of 2 to 3 members to be elected by the annual general meeting for a two-year period. The Nomination Committee currently consists of Katherine Støvring, Petter Mannsverk Andresen and Erik Evjen. The majority of the nomination committee is independent of the board of directors and the day-to-day management. The nomination committee's duties are to propose to the general meeting shareholder elected candidates for election to the board of directors, and to propose remuneration to the board. The annual general meeting may adopt procedures for the nomination committee.

10.4 AUDIT COMMITTEE AND COMPENSATION COMMITTEE

The Board has an Audit Committee, consisting of 2 to 3 members. The members are independent of the executive management. The purpose of the committee is to assist the Board of Directors to serve as an independent, objective check and balance in the Company's financial reporting and internal control. The Audit Committee currently consists of Christine Wheeler and Ragnar Søegaard.

Its responsibilities include:

- The integrity of the financial statements of the Company, including the audited annual and the unaudited quarterly financial statements.
- The independence, qualifications, performance and compensation of the Company's independent auditors.
- The performance of the Company's internal audit function.
- The Company's compliance with legal and regulatory policies.

The Board further appoints a Compensation Committee, consisting of 2 to 3 members. The members are to be independent of the executive management. The Compensation committee currently consists of Dr Phil Vingoe, Tord Pedersen and Kathrine Støvring.

The Compensation Committee meets regularly, and the objective of the committee is to determine the remuneration of the compensation structure and levels of the Company's CEO. The Compensation Committee presents its recommendations to the Board, whereby the Board of Directors decide upon the remuneration of the CEO. Remuneration to the CEO shall be at market terms and decided by the Board and made official at the AGM every year. Options must be approved by AGM.

10.5 CONFLICTS OF INTERESTS ETC.

No potential conflict of interest between senior management and the directors duties to the Company and their private interests and or other duties have been identified.

During the last five years preceding the date of this document, no member of the Board or the senior management has:

- any convictions in relation to indictable offences or convictions in relation to fraudulent offences;
- received any official public incrimination and/or sanctions by any statutory or regulatory authorities (including designated professional bodies) or ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company; or
- been declared bankrupt or been associated with any bankruptcy, receivership or liquidation in his capacity as a founder, director or senior manager of a company.

Over the five years preceding the date of this document, the member of the Board and the senior management hold or have held the following directorships (apart from their directorships of the Company and its subsidiaries) and/or partnerships:

Board of Directors:	**Current directorships/partnerships**	**Previous directorships/partnerships**
Dr Phil Vingoe		Board member Pan-Ocean Energy Corporation Ltd. Executive Director Pan-Petroleum Ltd Energy Equity Resources (Norway) Ltd
Katherine H. Støvring	Board Member Norse Energy Corp. ASA Aladdin Oil and Gas Corporations ASA	In Salah Gas Services (Jersey)
Ragnar Søegaard	Chairman Ruter AS Chairman Croatian Development II Chairman Norwegian Electricity Cooperation Board member 99X AS Board member Eurocenter DDC, Sri Lanka Board member Clean Energy Invest AS Chairman RS Consult Chairman Energiselskapet Buskerud	Chairman Multiconsult AS Vice chairman E-CO Vannkraft AS Board member Small Turbine Partner AS Board member Hybrid Energi AS Board member Mallin AS Board member Mallin Eiendom AS
Tord Pedersen		Board member Pan-Petroleum Ltd.

		Endeavour Energy Norge AS
Christine M.K. Wheeler	EnCore Oil plc (chairman) EnCore Exploration Limited EnCore Oil and Gas Ltd EnCore Petroleum Limited EnCore Natural Resources Limited EnCore North Sea Limited Christine Wheeler & Associates Limited	Setanta Energy BV Setanta Energy Manco Limited Cruisaid Crusaid Enterprises Ltd. Piper Consulting Limited

No board member has private interests of relevance and there are no other understandings or agreements with major shareholders in respect of selection of board members.

Management:	**Current directorships/partnerships**	**Previous directorships/partnerships**
Kjetil Solbrække	None	None
Anders Kapstad	Chairman La Barra Capital AS	Board Member Primera Management AS Chairman La Barra Capital AS
Nishant Dighe	None	None
Alistair Stobie	None	None
Thor Tangen	None	None

10.6 REMUNERATION AND BENEFITS

Remuneration of the Board and Management

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 ASA. 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.

The general meeting in August 2010 approved the remuneration to the Board of Directors for 2010 is fixed to NOK 550,000 per annum to the Chairman of the Board and NOK 350,000 per annum to each Board Member. In addition, the remuneration for participation in the Board of Director's subcommittees is fixed to NOK 50,000 to the Chairman of the Board and each Board Member.

On 17 August 2010 the Board of Directors approved an option program to employees and the Chairman of the Board. The Board issued 7,000,000 options, where each option gives the right to acquire one Share. The vesting period for the options is over a three year period, with 1/3 of the options exercisable each year. The strike price of the options is NOK 6.0 per Share, which is to be increased by 8 percent after year two and additional 8 percent annually thereafter. Accordingly, 2,333,333 options has a vesting period until Aug 17, 2011 and can be exercised until 17 August 2012 at NOK 6.0 or until 17 August 2013 at NOK 6.48; 2,333,333 options has a vesting period until 17 August 2012 and can be exercised until 17 August 2013 at NOK 6.48 or until 17 August 2014 at NOK 7.0; and 2,333,333 options has a vesting period until 17 August 2013 and can be exercised until 17 August 2014 at NOK 7.0 or until 17 August 2015 at NOK 7.56.

Of the 7,000,000 options, 6,770,000 options have been allocated to key employees and the Chairman of the Board. The remaining options will be distributed to other employees of the company under the same conditions.

The Chairman of the Board, Phil Vingoe, was granted 375,000 options, which is the total number of options held by Mr Vingoe per the date of this Prospectus. In addition, Mr. Vingoe controls 1,339,669 shares in the Company per the date of this Prospectus.

The key employees who were granted options:

- Kjetil Solbrække, CEO, 750,000 options, which is the total number of options held by Mr Solbrække per the date of this Prospectus. In addition, Mr. Solbrække controls 376,823 shares in the Company per the date of this Prospectus.

- Anders Kapstad, CFO, 500,000 options, which is the total number of options held by Mr Kapstad per the date of this Prospectus. In addition, Mr. Kapstad controls 60,850 shares in the Company per the date of this Prospectus.

- Nishant Dighe, COO, 500,000 options, which is the total number of options held by Mr Dighe per the date of this Prospectus. In addition, Mr. Dighe controls 1,259,669 shares in the Company per the date of this Prospectus.

- Alistair Stobie, EVP New Ventures, 500,000 options, which is the total number of options held by Mr Stobie per the date of this Prospectus. In addition, Mr. Stobie controls 339,077 shares in the Company per the date of this Prospectus.

- Thor Tangen, EVP Field Development, 500,000 options, which is the total number of options held by Mr Tangen per the date of this Prospectus. In addition, Mr. Tangen controls 11,000 shares in the Company per the date of this Prospectus.

- Phil Vingoe, Chairman of the Board, 375,000 options, which is the total number of options held by Mr Vingoe per the date of this Prospectus. In addition, Mr. Vingoe controls 1,339,669 shares in the Company per the date of this Prospectus.

- Adrian Robinson, VP Exploration, 250,000 options. In addition, Mr.Robinson controls 65,247 shares in the Company per the date of this Prospectus.

-Richard Morton, VP Nigeria, 250,000 options, which is the total number of options held by Mr Morton per the date of this Prospectus. In addition, Mr. Morton controls 35,132 shares in the Company per the date of this Prospectus.

- Carl Peter Berg, General Manager Brazil, 175,000 options, which is the total number of options held by Mr Berg per the date of this Prospectus. In addition, Mr. Berg controls 57,750 shares in the Company per the date of this Prospectus.

- Didier Goudant, Senior Legal advisor, 175,000 options, which is the total number of options held by Mr Goudant per the date of this Prospectus. In addition, Mr. Goudant controls 27,102 shares in the Company per the date of this Prospectus.

- Rebecca Sanderson, Financial Controller, 175,000 options, which is the total number of options held by Ms Sanderson per the date of this Prospectus. In addition, Ms. Sanderson controls 30,113 shares in the Company per the date of this Prospectus.

- Qazi Qadeer, Deputy Financial Controller, 175,000 options, which is the total number of options held by Mr Qadeer per the date of this Prospectus.

- Jonas Gamre, Investor Relations, 175,000 options, which is the total number of options held by Mr Gamre per the date of this Prospectus. In addition, Mr. Gamre controls 12,500 shares in the Company per the date of this Prospectus.

- Patrick Lynch, Information Systems Manager, 100,000 options, which is the total number of options held by Mr Lynch per the date of this Prospectus. In addition, Mr. Lynch controls 25,095 shares in the Company per the date of this Prospectus.

- Therese Fuglerud, Office Manager, 100,000 options, which is the total number of options held by Ms Fuglerud per the date of this Prospectus.

Kjetil Solbrække received in 2008 and 2009 a total salary including bonuses of USD 325.000 and USD 529.000 respectively, as managing director of NEdB. Anders Kapstad received a total salary of USD 376.000 and USD 425.000 for 2008 and 2009 in his capacity as CFO of Norse Energy. Yearly pension costs for the CFO is USD 7,500.

Benefits upon termination of employment

CEO of Norse Energy do Brasil S.A. has an agreement of two years' salary in case of resignation, and the VP Commercial of Norse Energy do Brasil S.A. has an agreement of two months' salary in case of resignation. No other members of the administrative, management or supervisory bodies' have currently entered into any service contracts with the Company or any of its subsidiaries providing for benefits upon termination of their employment.

Pension obligations

Panoro Energy does not have any pension plans in place for employees in Brazil or West-Africa.

The subsidiaries in Brazil, Norse Energy do Brasil and Rio das Contas Produtora de Petróleo comply with all labour law requirements for pension plan and both have in place a voluntary saving plan since 2007.

Loans and Guarantees

The Company has a long term note receivable to Kjetil Solbrække, CEO Brazilian operations, of USD 856,000. The note principal is due in March 2013 and carries an interest of 3%.

10.7 EMPLOYEES

As of the date of this Prospectus, the Company has 38 employees of which 18 are from Pan Holding. The table below illustrates the development in number of employees over the last years connected to the Brazilian operations of Norse Energy Corp., as per the end of each calendar year from 2006.

Year	As of date	Brazil	Total
2009	31 December	20	20
2008	31 December	30	30
2007	31 December	26	26
2006	31 December	22	22

11. SHARE CAPITAL AND SHAREHOLDER MATTERS

The following description includes certain information concerning the Company's share capital, a brief description of certain provisions contained in the Company's Articles of Association and Norwegian law in effect as of the date of this Prospectus. Any change in the Articles of Association is subject to approval by a general meeting of shareholders. This summary does not intend to be complete and is qualified in its entirety by the Company's Articles of Association and Norwegian law.

11.1 SHARE CAPITAL AND SHARES

Share capital

As of the date of this Prospectus, Panoro Energy's registered share capital is NOK 239,440,083.25 divided into 163,947,081 Shares each with a nominal value of NOK 1.460471768. All the Shares are authorised and fully paid.

The Company has one class of shares, each Share carrying equal shareholder rights, including voting rights at general meetings. The Company's articles of association does not provide for limitations on the transferability or ownership of Shares.

The Shares have been created under the Norwegian Public Limited Liability Companies Act and registered in book-entry form with the VPS under the International Securities Identification Number (ISIN) NO 001 0564701. The registrar for the Shares is Nordea Bank Norge ASA, Registrars department, Essendrops gate 7, 0368 Oslo, Norway.

Treasury Shares

As of the date of this Prospectus Panoro Energy does not own any treasury shares.

Warrants and convertible loans

On 15 June 2010, Panoro Energy issued 7.5 million warrants (*No: frittstående tegningsretter*). The warrants were issued as part of the Demerger, and were issued to holders of NEC-J warrants per 14 June 2010. The warrants are listed on Oslo Børs under the ticker code "PEN-J", and are registered in the VPS with ISIN NO 001 0577273. Each warrant gives the holder right to 1 new Share at a strike price of NOK 15.71. The warrants can be exercised until and including 1 July 2011.

Panoro Energy has not per the date of this Prospectus issued any convertible loans.

Options

On 17 August 2010 the Board of Directors approved an option program to employees and the Chairman of the Board. The Board issued 7,000,000, where each option gives the right to acquire one Share. The vesting period for the options is over a three year period,

with 1/3 of the options exercisable each year. The strike price of the options is NOK 6.0 per Share, which is to be increased by 8 percent after year two and additional 8 percent annually thereafter. Accordingly, 2,333,333 options has a vesting period until Aug 17, 2011 and can be exercised until 17 August 2012 at NOK 6.0 or until 17 August 2013 at NOK 6.48; 2,333,333 options has a vesting period until 17 August 2012 and can be exercised until 17 August 2013 at NOK 6.48 or until 17 August 2014 at NOK 7.0; and 2,333,333 options has a vesting period until 17 August 2013 and can be exercised until 17 August 2014 at NOK 7.0 or until 17 August 2015 at NOK 7.56.

The Company has, in connection with the acquisition of Prevail Energy Congo Limited, entered into an agreement with Prevail Energy Holdings Ltd pursuant to which Prevail Energy Holdings Ltd has been granted an option to subscribe for Shares provided that certain production targets are met.

Other than as set out above, Panoro Energy has not issued other options to acquire Shares.

Outstanding authorisations

In an extraordinary general meeting on 12 August 2010, Panoro Energy's Board of Directors were grated the following authorisations to increase Panoro Energy's share capital through issuance of new shares:

1. The Board of Directors was authorised to increase the share capital by up to NOK 23,244,008.18 by issuance of new shares in the company. The authorisation may be used for necessary strengthening of the Company's equity and for issuing shares as consideration shares in acquisition of businesses within the company's purpose. The authorisation is valid until the ordinary general meeting in 2011, however not longer than until 30 June 2011. Shareholders' pre-emption right can be set aside when using the authorisation. The authorisation includes share capital increases against contribution in kind or the right to incur the company special obligations. The authorisation does not include decision to merge.

2. The Board of Directors was authorised to increase the share capital by up to NOK 15,563,605.03 by issuance of new shares in the company. The authorisation may be used to issue shares to the company's employees and leading personnel under the company's incentive program. The authorisation is valid until the ordinary general meeting in 2011, however not longer than until 30 June 2011. Shareholders' pre-emption right can be set aside when using the authorisation. The authorisation includes share capital increases against contribution in kind or the right to incur the company special obligations. The authorisation does not include decision to merge.

3. The Board of Directors was authorised to increase the share capital by up to NOK 6,371,927.33 by issuance of new shares in the company. The authorisation may be used to issue shares to Prevail Energy Holdings Ltd. The authorisation is valid until the ordinary general meeting in 2011, however not longer than until 30 June 2011. Shareholders' pre-emption right can be set aside when using the authorisation. The authorisation includes share capital increases against contribution in kind or the right to incur the company special obligations. The authorisation does not include decision to merge.

As of the date of this Prospectus, no Shares have been issued pursuant to the above three authorisations.

As of the date of this Prospectus, the Board of Directors does not have any authorisations to acquire treasury shares, to issue independent subscription rights or convertible loans.

The above authorisation represent in aggregate an authorisation for the Board of Directors to issue up to 30,934,894 new Shares of par value NOK 1.460471768 each.

Transferability and foreign ownership

There are no restrictions on trading in the Company's Shares and no restrictions on foreign ownership of the Company's Shares.

In connection with the Merger, Mr Phil Vingoe, Nishant Dighe and Alistair Stobie agreed to a lock-up arrangement where 25% of the consideration Shares each of them received in the Merger were made subject to a 6 month lock-up period and the remaining 75% of the consideration Shares each of them received in the Merger were made subject to a commitment not to sell for a further 18 month period, both periods calculated from completion of the Merger on 29 June 2010. Mr Phil Vingoe received a total of 1,239,669 Shares as consideration in the Merger, Mr Nishant Dighe received a total of 1,239,669 Shares as consideration in the Merger and Mr Alistair Stobie received a total of 339,077 Shares as consideration in the Merger

Legislation and rights attached to the Shares

Reference is made to the review of legislation and rights attached to the Company's Shares in Section 11.14 "The Articles of Association and general shareholder matters".

Mandatory offers

Section 11.4 "Mandatory offer requirement" outlines the legislation on mandatory offers applicable to Norwegian companies listed on Oslo Børs. The Company has not been subject to any public take-over bids the last 12 months.

Withholding tax

Section 14.2 of this Prospectus provides information concerning withholding tax for foreign shareholders.

11.2 HISTORICAL DEVELOPMENT IN SHARE CAPITAL AND NUMBER OF SHARES

Below is a table showing the development in the number of Shares and the share capital of Panoro Energy since incorporation on 6 May 2009 until the date of the Prospectus (all figures in NOK).

Year	Type of change	Change in share capital	Subscription price	Total issued share capital	No of shares
6 May 2009	Incorporation	100,000	1,000	100,000	100
7 January 2010	Capital increase	900,000	1,000	1,000,000	1000
7 June 2010	Capital reduction pre Demerger	1,000,000		0	0
7 June 2010	Capital Increase upon completion of Demerger	68,372,651.79	12.5958	68,372,651.79	46,815,456
7 June 2010	Capital Increase	22,320,203.09	12.5958	90,692,854.88	62,098,328
29 June 2010	Capital Increase	21,769,444.62	12.5958	112,426,299.50	76,979,440

29 June 2010	Capital increase (completion of Merger)	126,977,783.78	12.5958	239,440,083.25	163,947,081

The Shares issued as merger consideration in the Merger (amounting to 86,942,991 Shares) were issued against the assigning company in the Merger, Pan Holding, transferring to Panoro Energy, as the acquiring company in the Merger, 100% of the shares in Pan Group and the 30% of the shares in NEdB not already owned by Panoro Energy.

11.3 MAJOR SHAREHOLDERS

The 20 largest shareholders in Panoro Energy ASA as appearing in the company's share register per 13 September 2010 are shown in the table below:

	Investor	Shares	%	Type
1	GOLDMAN SACHS INT. - EQUITY -	14,175,287	20.75%	Nominee
2	NORSE ENERGY CORP.ASA	9,299,522	13.61%	Company
3	MORGAN STANLEY & CO INC. NEW YORK	4,307,457	6.31%	Nominee
4	UBS AG, LONDON BRANCH	1,891,830	2.77%	Nominee
5	MORGAN STANLEY & CO INTERNAT. PLC	1,594,792	2.33%	Nominee
6	ARCTIC SECURITIES ASA MEGLERKONTO	1,154,163	1.69%	Broker
7	WESTCAP A/S	747,020	1.09%	Company
8	PARETO SECURITIES ASA MEGLERKONTO INNLAND	697,543	1.02%	Broker
9	DNB NOR SMB VPF	650,000	0.95%	Company
10	GOLDMAN SACHS & CO - EQUITY	623,948	0.91%	Nominee
11	NORDNET BANK AB	614,413	0.90%	Nominee
12	PARETO SECURITIES ASA MEGLERKONTO INNLAND	586,120	0.86%	Company
13	JPMORGAN CHASE BANK	463,700	0.68%	Nominee
14	FARSTAD JAN HENRY	418,561	0.61%	Private investor
15	NICON HOLDING AS	400,000	0.59%	Company
16	SAF INVEST AS	400,000	0.59%	Company
17	DANSKE BANK A/S	393,057	0.58%	Nominee
18	JPMBLSA	367,700	0.54%	Nominee
19	PACTUM AS	350,000	0.51%	Company
20	MALERMESTER AE INVEST AS	313,906	0.46%	Company

Panoro Energy's largest shareholder are sub-funds of Sector Umbrella Trust, a trust established under the laws of Ireland, acting through and managed by Sector Omega ASA pursuant to an investment management agreement between Sector Asset Management Ltd, as manager of Sector Umbrella Trust, and Sector Omega ASA (hereinafter referred to as "Sector"). Sector holds shares in various nominee accounts with the largest portion held within in the Goldman Sachs account. Following the approval of this Prosepectus, Sector aggregate holding of listed shares will be 108,020,028 shares equalling 65.9% of the issued shares in Panoro.

In accordance with the disclosure obligations under the Norwegian Securities Trading Act, shareholders acquiring ownership to or control over 5% or more of the share capital of a company listed on Oslo Børs must notify the stock exchange immediately. The table above shows the percentage held by such notifiable shareholders.

All Shares carry equal voting rights and the major shareholders in Panoro Energy do not have different voting rights.

11.4 THE ARTICLES OF ASSOCIATION AND GENERAL SHAREHOLDER MATTERS

The Company’s objects and purpose

The Articles of Association of the Company are included as Appendix 1 to this Prospectus. According to Section 1 of the Articles of Association, 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.

The General Meeting of shareholders

The following matters will be considered and decided by the annual general meeting:

1. Approval of the profit and loss statement and balance sheet, including application of the profit for the year or coverage of the loss for the year.

2. Election of board of directors and auditor, and determination of their remuneration.

3. Other issues which pursuant to law or the articles of association are to be decided by the annual general meeting.

If documents that shall be considered at the general meeting are made available to the shareholders on the Company’s website, the Companies Act request to send these documents to shareholders does not apply. This shall also apply for documents that, pursuant to law or regulations, shall be included in or attached to the notice of the general meeting. A shareholder may nevertheless upon request to the Company have the documents that shall be considered at the general meeting sent free of charge by mail.

The annual general meeting and the extraordinary general meeting is called with a three week notice period. Registrations for the Company's general meetings must be received at least five calendar days before the meeting is held.

The Board of Directors

The board of directors shall consist of 3 to 8 members.

The 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 of directors and the day to day management. The nomination committee’s duties are to propose to the general meeting shareholder elected candidates for election to the board of directors, and to propose remuneration to the board. The annual general meeting may adopt procedures for the nomination committee.

Voting rights and other shareholder rights

Panoro Energy has one class of shares, and each Share carry equal voting rights at the general meeting. The Articles of Association do not contain stricter restrictions for changing of the rights of the holders of the Shares than those which follow from the Public Limited Liability Companies Act.

As a general rule, resolutions that shareholders are entitled to make pursuant to Norwegian law or the Company’s Articles of Association, requires approval by a simple

majority of the votes cast. In the case of election of directors to the Board, the person who obtains the most votes is elected to fill the vacant position. However, as required under Norwegian law, certain decisions, including resolutions to waive pre-emptive rights in connection with any issue of shares, convertible bonds, warrants etc., to approve a merger or demerger, to amend the Company's Articles of Association, to authorise an increase or reduction in the share capital, to authorise an issuance of convertible loans or warrants or to authorise the Board to purchase the Company's own Shares or to dissolve the Company, must receive the approval of at least two-thirds of the aggregate number of votes cast as well as at least two-thirds of the share capital represented at a shareholders' meeting. Further, Norwegian law requires that certain decisions, which have the effect of substantially altering the rights and preferences of any shares or class of shares, receive the approval of all the holders of such shares or class of shares as well as the majority required for amendments of the Company's Articles of Association. Decisions that (i) would reduce any existing shareholder's right in respect of dividend payments or other rights to the assets of the Company or (ii) restrict the transferability of the shares require a majority vote of at least 90% of the share capital represented at the general meeting in question as well as the majority required for amendments to the Company's Articles of Association. Certain types of changes in the rights of shareholders require the consent of all shareholders affected thereby as well as the majority required for amendments to the Company's Articles of Association. The Articles of Association of the Company do not contain conditions that are more significant than required by the Norwegian Public Limited Liability Companies Act, including with regard to (i) what action is necessary to change the rights of holders of the Shares, and (ii) changes in capital.

In general, in order to be entitled to vote, a shareholder must be registered as the beneficial owner of Shares in the share register kept by the VPS. Beneficial owners of Shares that are registered in the name of a nominee are generally not entitled to vote under Norwegian law, nor are any persons who are designated in the register as holding such Shares as nominees.

Readers should note that there are varying opinions as to the interpretation of Norwegian law in respect of the right to vote nominee-registered shares. For example, Oslo Børs has in a statement on 21 November 2003 held that in its opinion "nominee-shareholders" may vote in general meetings if they prove their actual shareholding prior to the general meeting.

Under the Public Limited Companies Act shareholders will have preferential rights to subscribe for new securities issued by the Company, unless such rights are waived with 2/3 majority.

A shareholder will have right to a share in the profits of the Company that are distributed as dividend, as well as any surplus following liquidation of the Company. There are no dividend restrictions for non-resident shareholders. See section 12 below for a description of the Norwegian tax rules that apply to dividend paid to Norwegian and foreign shareholders.

The shares are not subject to redemption rights with the exemption provided for below under "Compulsory Acquisition". There are no conversion provisions applicable to the Shares.

Mandatory offer requirement

The current mandatory offer regulations are included in chapter 6 of the Securities Trading Act, which came into force on 1 January 2008. The mandatory offer regulations are in compliance with EU's Take-Over-Directive (Directive 2004/25/EF).

Chapter 6 of the Norwegian Securities Trading Act requires any person, entity or Brazil Group acting in concert that acquires more than 1/3 of the voting rights of a Norwegian company listed on a Norwegian regulated market to make an unconditional general offer

for the purchase of the remaining shares in the company. A mandatory offer obligation may also be triggered where a party acquires the right to become owner of shares which together with the party's shareholding represent more than 1/3 of the voting rights in the company and Oslo Børs decides that this must be regarded as an effective acquisition of the shares in question.

The offer is subject to approval by Oslo Børs before submission of the offer to the shareholders. The offer price per share must be at least as high as the highest price paid or agreed by the offeror in the six-month period prior to the date the 1/3 threshold was exceeded, but equal to the market price if the market price was higher when the 1/3 threshold was exceeded. In the event that the acquirer thereafter, but prior to the expiration of the bid period acquires, or agrees to acquire, additional shares at a higher price, the acquirer is obliged to restate its bid at that higher price. A mandatory offer must be in cash or contain a cash alternative at least equivalent to any other consideration offered. A shareholder who fails to make the required offer must within four weeks dispose of sufficient shares so that the obligation ceases to apply (i.e. to reduce the ownership to a level below 1/3). Otherwise, Oslo Børs may cause the shares exceeding the 1/3 limit to be sold by public auction. Until the mandatory bid is given or the shares exceeding the 1/3 threshold are sold, the shareholder may not vote for shares exceeding the 1/3 threshold, unless a majority of the remaining shareholders approve. The shareholder can, however, exercise the right to dividends and preferential rights in the event of a share capital increase. Oslo Børs may impose a daily fine upon a shareholder who fails to make the required offer or sell down below 1/3.

A shareholder or consolidated group that owns shares representing more than 1/3 of the votes in a Norwegian company listed on a Norwegian regulated market, and that has not made an offer for the purchase of the remaining shares in the Company in accordance with the provisions concerning mandatory offers (e.g., due to available exemptions), is, in general, obliged to make a mandatory offer in the case of each subsequent acquisition that increases his proportion of the voting rights. There are, however, exceptions to this rule. Furthermore, the rule does not apply for a shareholder or a consolidated group that, upon admission of the company to listing on a regulated market, owns shares representing more than 1/3 of the voting rights in the Company. However, if such shareholder or consolidated group acquires shares representing more than 40% or 50% of the voting rights in the Company, a mandatory offer obligation is, in general, triggered.

The obligation to make a mandatory offer will be repeated at acquisition of shares representing 40% or more and 50% or more of the voting rights in the Company.

The Company has not received any takeover bids or bids to acquire controlling interest during the last 12 months.

Compulsory Acquisition

In accordance with Section 4-25 of the Norwegian Public Limited Liability Companies Act (cf. Section 6-22 of the Norwegian Securities Trading Act), a shareholder who, directly or via subsidiaries, acquires shares representing more than 90% of the total number of issued shares in a Norwegian public limited liability company, as well as more than 90% of the total voting rights attached to such shares, has a right (and each remaining minority shareholder of the company have a right to require such majority shareholder) to effect compulsory acquisition for cash of the shares not already owned by the majority shareholder. Such compulsory acquisition would imply that the majority shareholder has become owner of the thus acquired shares with immediate effect. If a majority shareholder holding 90% of the shares and votes has not completed a mandatory offer, he/she/it will have to do so simultaneously with the compulsory acquisition under the current legislation. Upon effecting the compulsory acquisition, the majority shareholder shall offer the minority shareholders a specific price per share, the determination of

which will be at the discretion of the majority shareholder. However, pursuant to Section 6-22 of the Norwegian Securities Trading Act, in the event such compulsory acquisition is commenced within three months after expiry of a mandatory offer period as described in Section "Mandatory offer requirement" and there are no particulate reasons that call for another price to be set, the price offered by the majority shareholder shall be equal to the mandatory offer price. Should any minority shareholder not accept the offered price, such minority shareholder may, within a fixed two months' deadline, request that the price be set by the Norwegian courts. Minority shareholders who have not submitted such request, or other objection to the price being offered, will be deemed to have accepted the price offered by the majority shareholder upon expiration of the two months' period. The cost of such court procedure would, as a general rule, be on the account of the majority shareholder, and the courts would have full discretion in respect of the valuation of the shares as per the effectuation of the compulsory acquisition.

Disclosure Obligations

Pursuant to the Norwegian Securities Trading Act, a person, entity or group acting in concert that acquires shares, options for shares or other rights to shares resulting in its beneficial ownership, directly or indirectly, in the aggregate meeting or exceeding the respective thresholds of 5%, 10%, 15%, 20%, 25%, 1/3, 50%, 2/3 and 90% of the share capital and/or the voting rights in the Company has an obligation under Norwegian law to notify Oslo Børs and the Company immediately. The same applies to disposals of shares (but not options or other rights to shares) resulting in a beneficial ownership, directly or indirectly, in the aggregate falling below said thresholds. A change in ownership level due to other circumstances may also trigger the notification obligations when said thresholds are passed, e.g. changes in the Company's share capital.

Insolvency/Liquidation

According to the Norwegian Public Limited Liability Companies Act, the Company may be liquidated by a resolution in a general meeting of the Company passed by a two-thirds majority of the aggregate votes cast as well as two thirds of the aggregate share capital represented at such meeting. The Shares rank pari passu in the event of a return on capital by the Company upon a liquidation or otherwise.

In the event a resolution to liquidate the Company has been made, the Company's assets shall be transformed to cash in order to cover the Company's contractual obligations and for distribution to the shareholders as long as the shareholders have not accepted to receive the dividends in kind.

11.5 SHAREHOLDER AND DIVIDEND POLICY

Shareholder policy

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

Dividend policy

The Company's objectives are to create lasting values and provide competitive returns to its shareholders through profitability and growth.

Long-term returns to shareholders should reflect the value created in the Company in the form of increased share price as well as dividends.

Dividends should arise in line with the growth in the Company's results while at the same time recognizing the need for financial preparedness for cyclical market movements, as well as opportunities for adding value through new profitable investments.

Over time, value added will be reflected to a greater extent by an increased share price, rather than through dividend distributions.

The Company paid no dividend for the years 2009, 2008 and 2007.

11.6 SHAREHOLDER AGREEMENTS

The Company is not aware of any shareholder agreements among its investors.

11.7 CORPORATE GOVERNANCE

The principle behind good corporate governance is to establish and maintain a strong, sustainable and competitive company in the best interest of the shareholders, employees, business associates, third parties and society at large.

The Board acknowledges the Norwegian Code of Practice for Corporate Governance of 21 October 2009, and the principle of comply or explain. The Board has implemented the Code and will use its guidelines as the basis for the Board's governance duties. As of the date of this Prospectus, the Company is in compliance with the Norwegian Code of Practice for Corporate Governance of 21 October 2009 with the following qualification:

On 17 August 2010, Dr Phil Vingoe, Chairman of the Board, was granted 375,000 options to subscribe for Shares in Panoro Energy. Pursuant to section 11 of the Norwegian Code of Practice for Corporate Governance, it is recommended that options are not issued to members of the board of directors. Mr Vingoe has made significant contribution to the Company's development into what it is today, and the Board has taken the view that it will be in the best interest of the Group that Mr Vingoe is incentivise to continue these efforts going forward, and that this can partly be achieved by granting him the above mentioned options.

12. TAXATION

Set out below is a summary of certain Norwegian tax matters related to investments in the Company. The summary is based on Norwegian laws, rules and regulations applicable as of the date of this Prospectus, which may be subject to any changes in law occurring after such date. Such changes could possibly be made on a retroactive basis. The summary does not address foreign tax laws.

The summary is of a general nature and does not purport to be a comprehensive description of all the Norwegian tax considerations that may be relevant for a decision to acquire, own or dispose of Shares. Shareholders who wish to clarify their own tax situation should consult with and rely upon their own tax advisers. Shareholders resident in jurisdictions other than Norway and shareholders who ceases to be resident in Norway for tax purposes (due to domestic tax law or tax treaty) should consult with and rely upon their own tax advisers with respect to the tax position in their country of residence and the tax consequences related to ceasing to be resident in Norway for tax purposes.

Please note that for the purpose of the summary below, a reference to a Norwegian or foreign shareholder refers to the tax residency rather than the nationality of the shareholder.

12.1 NORWEGIAN SHAREHOLDERS

Taxation of dividends

Norwegian Personal Shareholders

Dividends received by shareholders who are individuals resident in Norway for tax purposes ("**Norwegian Personal Shareholders**") are taxable as ordinary income for such shareholders at a flat rate of 28% to the extent the dividend exceeds a tax-free allowance.

The allowance is calculated on a share-by-share basis. The allowance for each share is equal to the cost price of the share multiplied by a determined risk free interest rate based on the effective rate after tax of interest on treasury bills (Norwegian: "statskasseveksler") with three months maturity. The allowance is calculated for each calendar year, and is allocated solely to Norwegian Personal Shareholders holding shares at the expiration of the relevant calendar year. Norwegian Personal Shareholders who transfer shares will thus not be entitled to deduct any calculated allowance related to the year of transfer. Any part of the calculated allowance one year exceeding the dividend distributed on the share ("excess allowance") may be carried forward and set off against future dividends received on, or gains upon realisation, of the same share. Any excess allowance will also be included in the basis for calculating the allowance on the same share the following years.

Norwegian Corporate Shareholders

Dividends received by shareholders who are limited liability companies (and certain similar entities) resident in Norway for tax purposes ("**Norwegian Corporate Shareholders**") are included in the calculation of the shareholders' net income from shares qualifying for the participation exemption, including dividends received from the Company. Only 3% of net income from shares qualifying for the participation exemption shall be included in the calculation of ordinary income. Ordinary income is subject to tax at a flat rate of 28 %, implying that net income from shares is effectively taxed at a rate of 0.84%.

Capital Gains Tax

Norwegian Personal Shareholders

Sale, redemption or other disposal of shares is considered a realisation for Norwegian tax purposes. A capital gain or loss generated by a Norwegian Personal Shareholder through a realisation of shares is taxable or tax deductible in Norway. Such capital gain or loss is included in or deducted from the shareholder's ordinary income in the year of disposal. Ordinary income is taxable at a flat rate of 28%. The gain is subject to tax and the loss is tax-deductible irrespective of the duration of the ownership and the number of shares disposed of.

The taxable gain/deductible loss is calculated per share, as the difference between the consideration for the share and the Norwegian Personal Shareholder's cost price of the share, including any costs incurred in relation to the acquisition or realisation of the share. From this capital gain, Norwegian Personal Shareholders are entitled to deduct a calculated allowance, provided that such allowance has not already been used to reduce taxable dividend income. See "Norwegian Personal Shareholders" under "Taxation of Dividends" above for a description of the calculation of the allowance. The allowance may only be deducted in order to reduce a taxable gain, and cannot increase or produce a deductible loss, i.e. any unused allowance exceeding the capital gain upon the realisation of a share will be annulled.

If the Norwegian Personal Shareholder owns shares acquired at different points in time, the shares that were acquired first will be regarded as the first to be disposed of, on a first-in first-out basis.

Norwegian Corporate Shareholders

Sale, redemption or other disposal of shares is considered a realisation for Norwegian tax purposes. Capital gains derived from the realisation of shares qualifying for the participation exemption method are included in the calculation of net income from such shares. Losses incurred upon realisation of such shares may be deducted in order to reduce net taxable income from shares in the same fiscal year. Only 3% of net income from shares qualifying for the participation exemption method shall be taxed as ordinary income at a flat rate of 28%, implying that net income from shares is effectively taxed at a rate of 0.84%. Negative net income from shares does not reduce ordinary income.

Taxation of Subscription Rights

Norwegian Personal Shareholders

A Norwegian Personal Shareholder's subscription for shares pursuant to a subscription right is not subject to taxation in Norway. Costs related to the subscription for shares will be added to the cost price of the shares.

Sale and other transfer of subscription rights is considered a realisation for Norwegian tax purposes. For Norwegian Personal Shareholders, a capital gain or loss generated by a realisation of subscription rights is taxable or tax deductible in Norway. Such capital gain or loss is included in or deducted from the shareholder's ordinary income in the year of disposal. Ordinary income is taxable at a rate of 28%.

Norwegian Corporate Shareholders

A Norwegian Corporate Shareholder's subscription for shares pursuant to a subscription right is not subject to taxation in Norway. Costs related to the subscription for shares will be added to the cost price of the shares.

Sale and other transfer of subscription rights is considered a realisation for Norwegian tax purposes. Capital gains derived from the realisation of subscription rights to shares in

limited liability companies resident in Norway for tax purposes are included in the calculation of net income from shares qualifying for the participation exemption method, see "Norwegian Corporate Shareholders" under Section 12.1.2 above. .Losses incurred upon realisation of such subscription rights may be deducted in order to reduce net taxable income from shares in the same fiscal year. Only 3% of net income from shares qualifying for the participation exemption method is included in the calculation of ordinary income for Norwegian Corporate Shareholders which is taxed at a flat rate of 28%, implying that such net income are effectively taxed at a rate of 0.84%. Negative net income from Subscription Rights does not reduce ordinary income.

Net Wealth Tax

The value of shares is included in the basis for the computation of wealth tax imposed on Norwegian Personal Shareholders. Currently, the marginal wealth tax rate is 1.1% of the value assessed. The value for assessment purposes for shares listed on the Oslo Stock Exchange is the listed value as of 1 January in the year of assessment.

Norwegian Corporate Shareholders are not subject to wealth tax.

12.2 FOREIGN SHAREHOLDERS

Taxation of dividends

Foreign Personal Shareholders

Dividends distributed to shareholders who are individuals not resident in Norway for tax purposes ("**Foreign Personal Shareholders**"), are as a general rule subject to withholding tax at a rate of 25%. The withholding tax rate of 25% is normally reduced through tax treaties between Norway and the country in which the shareholder is resident. The withholding obligation lies with the company distributing the dividends.

Foreign Personal Shareholders resident within the EEA for tax purposes may apply individually to Norwegian tax authorities for a refund of an amount corresponding to the calculated tax-free allowance on each individual share (see above).

If a Foreign Personal Shareholder is carrying on business activities in Norway and the shares are effectively connected with such activities, the shareholder will be subject to the same taxation of dividends as a Norwegian Personal Shareholder, as described above.

Foreign Personal Shareholders who have suffered a higher withholding tax than set out in an applicable tax treaty may apply to the Norwegian tax authorities for a refund of the excess withholding tax deducted.

Foreign Corporate Shareholders

Dividends distributed to shareholders who are limited liability companies not resident in Norway for tax purposes ("**Foreign Corporate Shareholders**"), are as a general rule subject to withholding tax at a rate of 25%. The withholding tax rate of 25% is normally reduced through tax treaties between Norway and the country in which the shareholder is resident.

Dividends distributed to Foreign Corporate Shareholders resident within the EEA for tax purposes are exempt from Norwegian withholding tax provided that the shareholder is the beneficial owner of the shares and that the shareholder is genuinely established and performs genuine economic business activities within the relevant EEA jurisdiction.

Foreign Corporate Shareholders who have suffered a higher withholding tax than set out in an applicable tax treaty may apply to the Norwegian tax authorities for a refund of the excess withholding tax deducted.

Nominee registered shares will be subject to withholding tax at a rate of 25% unless the nominee has obtained approval from the Norwegian Tax Directorate for the dividend to be subject to a lower withholding tax rate. To obtain such approval the nominee is required to file a summary to the tax authorities including all beneficial owners that are subject to withholding tax at a reduced rate.

The withholding obligation in respect of dividends distributed to Foreign Corporate Shareholders and on nominee registered shares lies with the company distributing the dividends.

Capital Gains Tax

Foreign Personal Shareholders

Gains from the sale or other disposal of shares by a Foreign Personal Shareholder will not be subject to taxation in Norway unless the Foreign Personal Shareholder holds the shares in connection with business activities carried out or managed from Norway.

Foreign Corporate Shareholders

Capital gains derived by the sale or other realisation of shares by Foreign Corporate Shareholders are not subject to taxation in Norway.

Taxation of Subscription Rights

Foreign Personal Shareholders

A Foreign Personal Shareholder's subscription for shares pursuant to a subscription right is not subject to taxation in Norway.

Gains from the sale or other transfer of subscription rights by a Foreign Personal Shareholder will not be subject to taxation in Norway unless the Foreign Personal Shareholder holds the subscription rights in connection with business activities carried out or managed from Norway.

Foreign Corporate Shareholders

A Foreign Corporate Shareholder's subscription for shares pursuant to a subscription right is not subject to taxation in Norway

Capital gains derived by the sale or other transfer of subscription rights by Foreign Corporate Shareholders are not subject to taxation in Norway.

Net Wealth Tax

Shareholders not resident in Norway for tax purposes are not subject to Norwegian net wealth tax. Foreign Personal Shareholders can however be taxable if the shareholding is effectively connected to the conduct of trade or business carried out in Norway.

12.3 INHERITANCE TAX

When shares are transferred by way of inheritance or gift, such transfer may give rise to inheritance or gift tax in Norway if the decedent, at the time of death, or the donor, at the time of the gift, is a resident or citizen of Norway, for inheritance tax purposes, or if the shares are effectively connected with a business carried out through a permanent establishment in Norway. However, in the case of inheritance tax, if the decedent was a

citizen but not a resident of Norway, Norwegian inheritance tax will not be levied if inheritance tax or a similar tax is levied by the decedent's country of residence.

Inheritance tax will be applicable to gifts if the donor is a citizen of Norway at the time the gift was given. However, for taxes paid in the donor's country of residence a credit will be given in the Norwegian gift taxes.

The basis for the computation of inheritance tax is the market value at the time the transfer takes place. The rate is progressive from 0% to 15%. For inheritance and gifts from parents to children, the maximum rate is 10%.

12.4 DUTIES ON TRANSFER OF SHARES

No stamp or similar duties are currently imposed in Norway on the transfer or issuance of shares in Norwegian companies.

13. LEGAL MATTERS

13.1 LEGAL AND ARBITRATION PROCEEDINGS

The Company will from time to time be involved in disputes in the ordinary course of its business activities. Below is a description of the claims which are of a certain extent. A vast majority of the claims are covered by insurance. In the event the final outcome of the disputes should be that the Company must pay all claims, Panoro Energy's financial position or profitability would thus be scarcely affected.

Other than the existing and possible claims and proceedings listed below, the Company is not aware of any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened), which may have, or have had during the last twelve months, significant effects on the Company's financial position or profitability.

The Company is currently involved in the following legal disputes:

- NEdB, is a party in a lawsuit filed by the Municipality of Cairu-Bahia, against ANP – Brazilian Petroleum Agency, Petrobras, Queiroz Galvão Oleo & Gas and Brasoil Manati Exploração Petrolífera, June, 2008. The Municipality of Cairu is demanding that the concession agreement is declared invalid and that the royalty is increased from the current rate of 7.5% to 10%. In addition the municipality claims that the difference of 2.5% is paid with retroactive effect from the start-up date. New Brazil Holding legal advisors in the process evaluate the risk of financial liabilities associated with this lawsuit as remote. No accrual has been made related to this issue.

- The Association of Petrobras Engineers ("AEPET") filed a lawsuit against The Brazilian Petroleum Agency (ANP) and all companies that bid on concessions in the ANP 3rd Round. The purpose of this lawsuit was to annul the 3rd Bid Round as well as all the concession contracts signed as a result of this bid round. Since Rio das Contas acquired the concessions in BM-CAL 5 & 6 that was granted to Petroserv in this bid round, Panoro Energy was summoned to reply to the lawsuit. Panoro Energy Energy evaluates the risk related to this lawsuit to be remote as the arguments used to annul the 3rd Bid Round and signed concession contracts are inconsistent, and are against previous jurisprudences of the Court of the State of Rio de Janeiro. No accrual has been made related to this lawsuit.

- Rio das Contas is a party in two lawsuits filed by the Fishermen Association in the Manati Project region demanding indemnification for environmental damages as a result of alleged non-implementation of the compensatory measures established on the Environmental studies and reports part of the Environmental Licensing Process. There was a subsidiary request for an injunction to suspend the activities of implementation of the platform, pipeline and all infrastructure related to the project, which was not granted by the Court. Panoro Energy evaluates the risk associated with this law suit as remote since the basic argument is that the implementation of the Manati project has caused environmental damages, but throughout the petition there was no indication of a concrete damage. The issuance of the IBAMA Operation License further strengthens Panoro Energy's case. No accrual has been made related to these lawsuits.

- Coplex Petróleo do Brasil Ltda, is under an administrative proceeding with the tax authorities regarding PIS (Social Integration Program) and COFINS (Social Securitieson Revenues) levied on financial revenues, which on December 31, 2008, totalled approximately USD 1 million. On a first jurisdiction the decision was favorable to Coplex, however a second level judgment is ongoing in order to receive a final decision. Based on the opinion of Panoro Energy's legal advisors, the risk of

loss is considered remote. Accordingly, no accrual has been made in the financial statement related to this administrative proceeding.

- Coplex Petróleo do Brasil Ltda is under a legal suit (tax collection) filled in May 2009 which origin was two administrative proceedings with the tax authorities regarding the payment of PIS (Social Integration Program) and COFINS (Social Securities on Revenues), totalled approximately R$ 1.411.964,37. The taxes under discussion have already been paid. Proof of the payments is done and a response from tax authorities is waited.

13.2 MATERIAL CONTRACTS

The Company has not entered into any material contracts outside the ordinary course of business.

13.3 RELATED PARTY TRANSACTIONS

The Company or, prior to completion of the Demerger, Norse Energy with respect to the business acquired by the Company in the Demerger, has completed transactions with related parties in the period from 2007 and up until the date of this Prospectus, as summarised below. The agreements pertaining to these transactions are all entered into on market terms and in accordance with provisions in the Norwegian Public Limited Companies Act.

2009: The sale of 30% of the shares in NEdB to Sector at a purchase price of USD 30,000,000. The purchase price was settled in accordance with the agreement and accordingly there are no amounts outstanding with respect to the transaction.

2010: The Merger between the Company and Pan Holding, the latter being owned by Sector with approximately 99% prior to completion of the Merger.

14. ADDITIONAL INFORMATION

14.1 DOCUMENTS ON DISPLAY

For the life of this Prospectus the following documents (or copies thereof), where applicable, may be inspected at the offices of the Company:

- The Memorandum and Articles of Association of the Company
- All reports, letters, and other documents, historical financial information, valuations, and statements prepared by any expert at the Company's request any part of which is included or referred to in the Prospectus;
- The audited financial accounts of the Company for the last two financial years
- Historical financial information for the Company's subsidiaries for the last two financial years
- This Prospectus

14.2 STATEMENT REGARDING EXPERT OPINIONS

The Company confirms that when information in this Prospectus has been sourced from a third party it has been accurately reproduced and as far as the Company is aware and is able to ascertain from the information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

The Company 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-2007) sponsored by 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.

The Company's reserves have been verified by its certification agent; Gaffney, Cline & Associates (GCA), Four Oaks Place, 1360 Post Oak Boulevard, Suite 2500, Houston, Texas 77056. Gaffney, Cline & Associates has no material interest in the Company.

14.3 THIRD PARTY INFORMATION

Market and industry data used throughout this Prospectus was obtained from various publicly available or independent third party sources. Although the Company believes that these independent sources are generally reliable, the accuracy and completeness of such information are not guaranteed and have not been verified with complete certainty due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and the limitations and uncertainties inherent in any statistical survey of market size or consumer demand. References in this Prospectus to research reports or articles should not be construed as depicting the complete findings of the entire referenced report or article. The information in each report or article is not incorporated by reference into this Prospectus.

The information in this Prospectus that has been sourced from third parties has been accurately reproduced and, as far as the Company is aware and able to ascertain from the information published by that third party, no facts have been omitted that would render the reproduced information inaccurate or misleading.

15. GLOSSARY

AEPET	The Association of Petrobras Engineers
BCA	The Business Combination Agreement dated 27 January 2010
Board of Directors or Board:	The Board of Directors of Panoro Energy ASA
BRL	Brazilian Real
Brazil Group	Norse Energy do Brazil S.A and its consolidated subsidiaries
CEO	Chief Executive Officer.
CFO	Chief Financial Officer.
CET	Central European Time.
Company	Panoro Energy ASA and its consolidated subsidiaries
Congo or republic of Congo	The Republic of Congo, having its capital in Brazzaville
Corporate Governance Code	The Norwegian Code of Practice for Corporate Governance of 21 October 2009
Coplex	Norse Energy do Brasil S.A, Coplex Petroleo do Brazil Ltda.
EIA	Energy Information Agency
EUR	The currency introduced at the start of the third stage of the Economic and Monetary Union to the Treaty establishing the European Economic Community, as amended by the Treaty on the European Union.
Foreign Corporate Shareholders	Shareholders who are limited liability companies not resident in Norway for tax purposes
Foreign Personal Shareholders	Shareholders who are individuals not resident in Norway for tax purposes
Henry Hub	US quoted gas price at a point on the natural gas pipeline system in Erath, Louisiana traded on NYMEX
IEA	International Energy Agency
IFRS	International Financing Reporting Standards, issued by the International Financial Reporting Interpretations Committee (IFRIC) (formerly, the "Standing Interpretations Committee" (SIC)).
Interest Cover Ratio	The interest coverage ratio is calculated by dividing a company's earnings before interest and taxes (EBIT) of one period by the company's interest expenses of the same period
ISIN	International Securities Identification Number.
KBOE/day	Thousand Barrels of Oil Equivalents per day
Listing Shares	Listing of 95,638,921 Shares in Panoro Energy ASA on Oslo Børs
Managers	Arctic Securities ASA and Pareto Securities AS
Merger	The merger between Pan Holding and the Company
Merger Plan	The merger plan between Pan Holding and the Company dated 26 March 2010
NOK	Norwegian Kroner, the lawful currency of the Kingdom of Norway
NedB	Norse Energy do Brasil S.A
Norse Energy	Norse Energy Corp. ASA, or when the context so requires, including its subsidiaries.

Norwegian Corporate Shareholders	Shareholders who are limited liability companies (and certain similar entities) resident in Norway for tax purposes
Norwegian Personal Shareholders	Shareholders who are individuals resident in Norway for tax purposes
Norwegian Public Limited Liability Companies Act	The Norwegian Public Limited Liability Companies Act of 13 June 1997 no. 45 ("Allmennaksjeloven").
Norwegian Securities Trading Act	The Securities Trading Act of 29 June 2007 no. 75 ("Verdipapirhandelloven").
NYMEX	New York Mercantile Exchange
OPEC	Organization of Petroleum Exporting Countries
Oslo Børs	Oslo Børs ASA (translated "the Oslo Stock Exchange").
Panoro Energy	Panoro Energy ASA and its subsidiaries
Panoro Group	Panoro Energy ASA and its subsidiaries
Pan Group	Pan-Petroleum Holding Cyprus Limited and its consolidated subsidiaries
Pan Holding	Pan-Petroleum Holding AS
PIS	Social Integration Program
Private Placement	NOK 380 million (USD 65 million private placement at prevailing rate of 5.85) in Panoro Energy ASA subscribed in March 2010
Prospectus	This Prospectus dated 16 September 2010.
Rio das Contas	Rio das Contas Produtora de Petroleo Ltda.
Sector	Sector Omega ASA
Share(s)	"Shares" means the common shares in the capital of the Company each having a nominal value of NOK NOK 1,460471768 and "Share" means any one of them.
Tcf	Trillion cubic feet
USD	United States Dollar, the lawful currency of the United States of America.
VPS account	An account with VPS for the registration of holdings of securities.
VPS	Verdipapirsentralen (Norwegian Central Securities Depository), which organizes a paperless securities registration system.
WTI	West Texas Intermediate oil price is a benchmark in oil pricing and the underlying commodity of NYMEX' oil futures contracts.

APPENDIX 1: ARTICLES OF ASSOCIATION OF PANORO ENERGY ASA

Articles of Association

for

Panoro Energy ASA
(As per June 29, 2010)

§ 1 The name of the company

The name of the company shall be Panoro Energy ASA. The company is a public limited liability company.

§ 2 The business of the company

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.

§ 3 Registered office

The company's registered office is in the municipality of Oslo.

§ 4 Share capital and shares

The share capital of the company is NOK 239,440,083.25 divided on 163,947,081 shares each with a nominal value of NOK 1.460471768, fully paid and payable to registered owner.

The company's shares shall be registered in the Norwegian Registry of Securities, Verdipapirsentralen (VPS).

§ 5 Board of directors

The board of directors consists of 3 to 8 members.

§ 6 Signature

The power to sign for the company is exercised by the chairman of the board alone or by two board members jointly.

§ 7 Annual general meeting

The following matters will be considered and decided by the annual general meeting:

1. Approval of the profit and loss statement and balance sheet, including application of the profit for the year or coverage of the loss for the year.
2. Election of board of directors and auditor, and determination of their remuneration.
3. Other issues which pursuant to law or the articles of association are to be decided by the annual general meeting.

If documents that shall be considered at the general meeting are made available to the shareholders on the company's website, the Companies Act request to send these documents to shareholders does not apply. This shall also apply for documents that, pursuant to law or regulations, shall be included in or attached to the notice of the general meeting. A shareholder may nevertheless upon request to the company have the documents that shall be considered at the general meeting sent free of charge by mail.

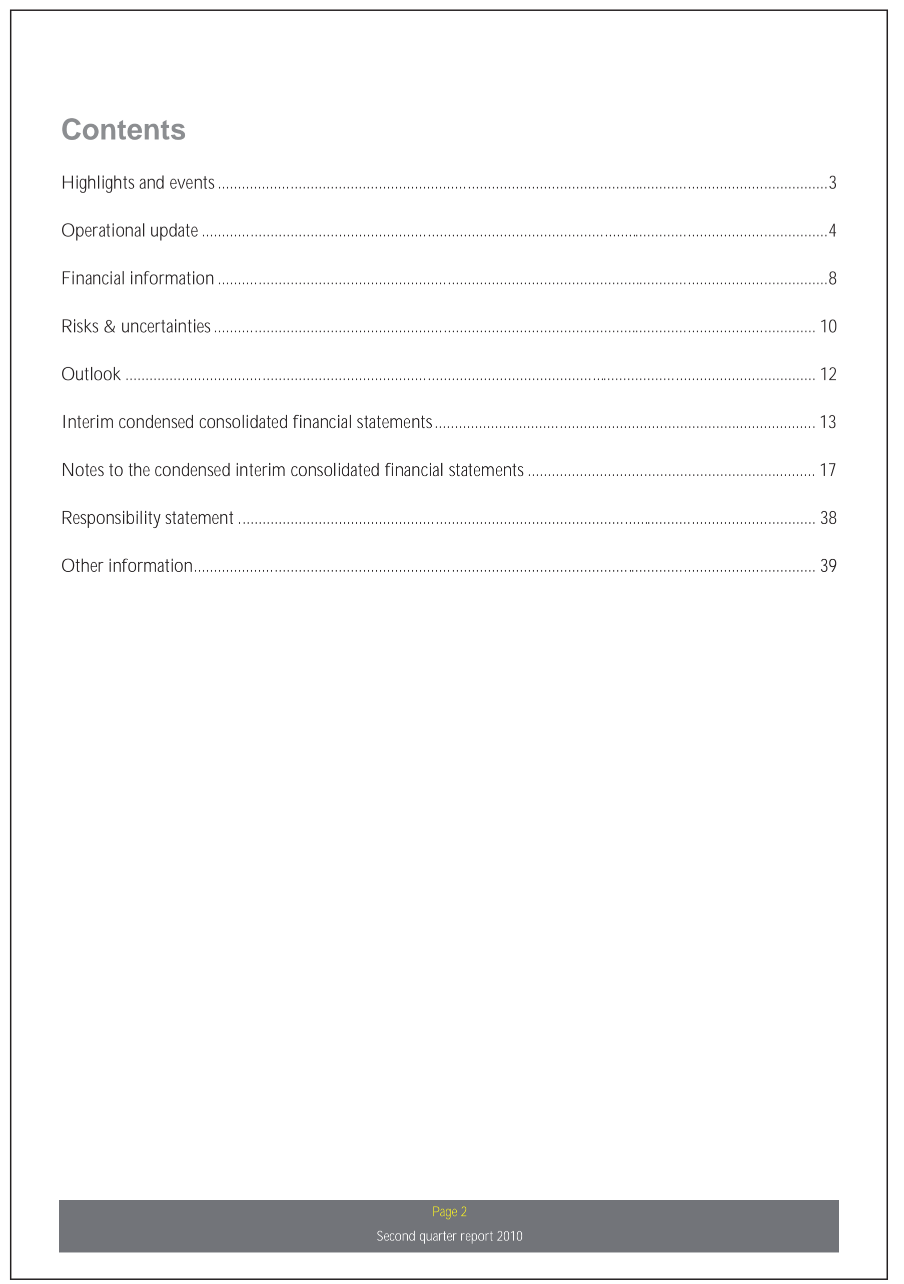
Registrations for the company's general meetings must be received at least five calendar days before the meeting is held.

§ 8 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 of directors and the day-to-day management. The nomination committee's duties are to propose to the general meeting shareholder elected candidates for election to the board of directors, and to propose remuneration to the board. The annual general meeting may adopt procedures for the nomination committee.

§ 9 Other regulations

In all other matters of the company, the Public Limited Liabilities Companies Act will apply.



Contents

Highlights and events 3
Operational update 4
Financial information 8
Risks & uncertainties 10
Outlook 12
Interim condensed consolidated financial statements 13
Notes to the condensed interim consolidated financial statements 17
Responsibility statement 38
Other information 39

Highlights and events

Panoro Energy ASA ("PEN" ticker code OSE) and its subsidiaries ("Panoro Energy" or "the Company") reports the completion of the demerger from Norse Energy Corp. ASA with listing of Panoro Energy ASA and subsequent merger with Pan-Petroleum, creating a new South Atlantic oil & gas independent. The year-to-date Profit & Loss (P&L) consists of year-to-date Brazil group and Panoro Energy ASA P&L. Pan-Petroleum results have not been consolidated in the P&L, as the acquisition became effective on June 29, 2010. The balance sheet, however, reflects Panoro Energy ASA after the merger with Pan-Petroleum.

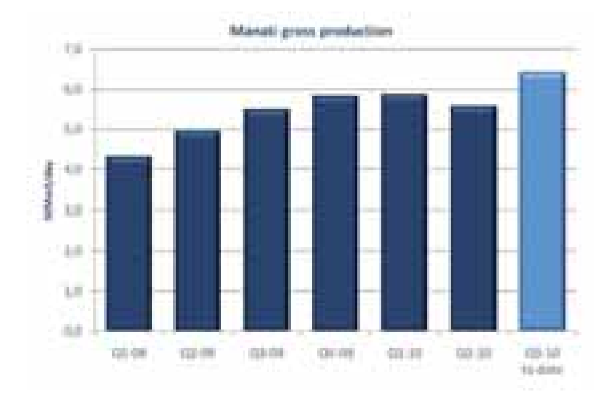
Second Quarter Highlights and Subsequent Events

Corporate

- Listing of Panoro Energy ASA on the Oslo Stock Exchange on June 8, 2010, completing the demerger from Norse Energy Corp. ASA
- Merger between Panoro Energy ASA and Pan-Petroleum completed on June 29, 2010
- Finalisation of bond restructuring on June 30, 2010
- Election of new members to the Board of Directors
- Completed gross USD 65 million equity raise in connection with the merger

Key financials and operations

- Group net production was 3,360 boe/day in Q2 – Strong production into Q3 from Manati
- Group EBITDA was USD -3.6 million, including "one-off" M&A cost of USD 4.7 million
- Confirmed oil flow from the MKB project in Congo-Brazzaville



Operational update

Brazil

Manati Field: (Petrobras 35% (Operator), Panoro Energy 10%):

Average production from Manati in the quarter was 5.58 million m³ (3,510 boe net to Panoro) per day, resulting in sales of 3,360 boe/day. This represents an increase in production of approximately 12% from the second quarter 2009 and a decrease of approximately 5% compared to the first quarter 2010. The increase in production towards the end of the quarter was mainly due to increased gas demand in the North East from the Thermo Electric Plants. The field reached a historical record production of 7.82 million m³/day on June 22, 2010, which underlines the field's capacity as a swing producer.

Third-quarter production to date (through August 19, 2010) averaged 6.41 million m³ (4,035 boe net to Panoro) per day.

Panoro Energy and its partners are discussing an amendment to the existing gas contract to include all additional gas volumes in the field.

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

In line with Panoro Energy's desire to look at synergies for development of the reservoirs in the area, the Brazilian National Petroleum Agency ("ANP") has rejected the current separate development plans for Cavalo Marinho and Caravela (100% Petrobras), Estrela-do-Mar and Tubarão (100% Petrobras) in the BS-3 area.

In particular, the ANP has requested the operator to consider inclusion of the B1 reservoir in the development. This request is aligned with Panoro Energy's preferred concept for development in this area. The partners are also discussing the possibility of redeveloping the Coral field as part of the BS-3 joint development. Petrobras has for the first time presented potential pre-salt possibilities within the Coral licence area.

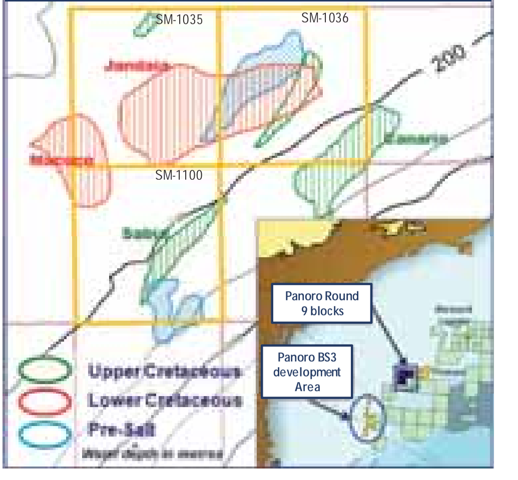
Santos Round 9 Exploration Assets (Panoro Energy 50% (Operator), Brasoil 50%)

Panoro Energy is encouraged by the preliminary results from the 3D seismic. Four post-salt leads have been identified with a gross unrisked resource potential of 200 – 800 MMBOE. Risking of the leads has not yet been completed.

Additional 3D seismic data have been acquired from PGS in order to obtain full coverage over the Canario prospect that straddles the boundary of our block. Panoro Energy has also acquired a full set of original seismic gathers (for AVO and amplitude analysis) and the new Pre-stack depth migration ("PSDM") data. These additional seismic products were only received from PGS at end July and the PSDM data were delivered in mid-August. Panoro's in-house technical team is now completing a robust technical description of the prospects to provide more reliable resource estimates for the leads identified. The current work indicates that there are four primary leads in the acreage, Jandaia, Canario, Sabia and Macuco, shown in the map below. The reference to leads remains until Panoro's assessment is completed, including volumetrics and risking. At this point, the term Prospect may be applied to those leads considered viable and drillable.

Panoro Energy is planning to attract a partner and a farm-out process will commence shortly.

Below is a brief description of our four primary leads.



- **Jandaia** is a significant structural closure with potential reservoir in the Albian Upper Guaruja carbonates, and is a direct analogue to the BS-3 area fields. It is around 5,500 meters below mudline, in approximately 180 meters water depth.
- **Canario** is a complex faulted structural closure with potential reservoir in the Upper Cretaceous Ilhabela/Itajai turbidites. There is a direct analogue for Canario in the Piracuca discovery, located some 25km to the Northeast of Canario. It is around 4,200 meters below mudline, in approximately 220 meters water depth and most of the volumes in this prospect are expected to be on Panoro Round 9 block SM-1036.
- **Sabia** is a stratigraphic lead located on block SM-1100, with potential reservoir in the Upper Cretaceous Ilhabela/Itajai turbidites. The turbidites form a thick wedge in the basin to the south east, but thin and terminate against a salt-related fault. It is around 4,200 meters below mudline, in approximately 220 meters water depth.
- **Macuco** is a relatively small structural closure with potential reservoir in the Albian Lower Guaruja carbonates. This reservoir interval has not been penetrated by drilling to date in the area and lies beneath 6,000 meters. Most of the volumes in this prospect are expected to be on Panoro Round 9 blocks SM-1035 and SM-1100.

CONGO-BRAZZAVILLE

Mengo-Kundji-Bindi (MKB) (SNPC 60% (Operator), Panoro Energy 20%):

Operations commenced in mid-July on Kun-4bis and Kun-5 wells. This includes running a completion string, hydraulically fracturing the wells and production testing. During the clean-up program, each well indicated oil rates of around 600 Bbl/day through a 24/64" choke over a short period. A regular production test however has not yet been conducted. The partners plan to jointly press release results once such data has been established. Past production from this field has shown that the initial production decline will be rapid before the wells stabilise at a longer term sustainable rate. Panoro Energy expects that production testing from these wells will allow proved developed and proved undeveloped reserves to be booked later this year.

SNPC (Congo National Oil Company) has mobilised their drilling rig from its previous location and a rig contract is being negotiated to execute additional 6 wells as part of the pilot program to optimize future development of the MKB permit. We expect to commence the drilling program in Q4-2010.

The Company underlines that the field is currently in a pilot production phase. Subsequent to an evaluation of the 2+6 well pilot program, a full field development plan is to be agreed upon by the partners.

Panoro Energy currently has four personnel seconded into the project team under a secondment agreement and are assisting the operator in executing the approved work program.

GABON

Dussafu Marine (Harvest, 66.6667% (Operator), Panoro Energy 33.3333%):

The partners have agreed with the Directorate General de Hydrocarbunes (DGH) the drilling of the Ruche Marine-1 exploration well to test the Hibiscus East prospect offshore Gabon. This is now expected to take place in the first half of 2011. In preparation for choosing a rig, a bathimetry survey was acquired in April, a geophysical site survey acquired in May (to satisfy the shallow drilling hazards aspects of the rig insurance) and a geotechnical seabed coring survey was completed in July.

NIGERIA

OML113 Aje Field (YFP Operator, Chevron Technical Advisor, Panoro Energy 6.5% participating interest):

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. This highlights the large uncertainty with regards to recoverable volumes from this field. Panoro Energy will retain an independent, third-party consultancy to review the new PSDM seismic and certify contingent resources by year-end. Commercial agreements for transportation and sales of gas from the field have not to date been 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.

Ajapa (Brittania-U Operator, Panoro Energy 40%):

A sale and purchase agreement between the wholly owned subsidiary of Panoro Energy and Brittania-U Nigeria Limited, has recently been signed for a sale price of USD 30 million, however the agreement is contingent upon proof of funding as well as government approval.

The field has completed a test production program during 2010, and is currently shut-in due to a problem with the flowline. The field is awaiting start-up of commercial production, however, as Panoro is divesting its interest in Ajapa the Company will not provide operational updates going forward.

NIGERIA-SAO TOME JDZ

Block 3 (Addax Operator, Pan-Petroleum 10%):

The PSC (Production Sharing Contract) phase 1 continues until 13th September 2010. At this point, Panoro Energy intends to relinquish the license.

Financial information

Income statement review

EBITDA for the second quarter of 2010 was negative USD 3.6 million, down from positive USD 6.4 million in the previous quarter. The decline is mainly due to significant one-off merger related costs of USD 4.7 million, as well as a USD 4.7 million seismic charge in Brazil.

A decline of 5% in gas revenues for the second quarter in comparison to the first quarter of 2010 was a direct result of decline in sales volumes offset by a slight gain on strengthening of the Real to USD. Further, consequent to the increase in production compared to 2009, the production from Manati is now subject to Special Participation Charge of which is estimated to be USD 800 thousand to USD 1 million annually.

Production costs for the second quarter of USD 1.2 million increased by USD 0.2 million compared to the previous quarter despite a decline in production volumes. This is mainly due to movements in forex compared to previous quarter.

Exploration and dry-hole costs for the current quarter represented USD 4.7 million that related to seismic costs of USD 1.8 million, which is cost allocated to the work conducted in 2010. The remaining USD 2.9 million is the costs of contractual obligations related to data acquisitions, interpretations and related work.

Depreciation has increased by USD 155 thousand to USD 1.9 million in comparison to previous quarter despite the decline in production volumes. The increased charge is attributable to fluctuations in foreign currency rates compared to previous quarter and effects of recent revisions to reserves estimates. Year to date depreciation has increased by 19% in relation to 2009, primarily due to unfavourable foreign exchange fluctuation and minor impact of revision in reserves estimates.

Year to date EBITDA has increased by approximately 36% consequent to 25% higher production volumes than the corresponding period supplemented by a 20% higher USD unit price compared to 2009 due to improved currency exchange rates against USD. Production cost for 1H 2010 stood at 11% of gas sales revenue compared to 13% for 1H 2009. Year to date exploration costs for 2010 were down by USD 2.6 million from the comparable period of 2009. The decline was offset by an increase in one off merger costs by USD 5.5 million incurred up to 30 June 2010. General and administrative costs increased by USD 1.1 million quarter on quarter, USD 1.5 million year to date on account of corporate costs of Panoro.

The current period also include USD 2.9 million of gain on acquisition of subsidiary which 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 has been recognised as income in accordance with IFRS 3.

Net effects of foreign exchange items were negative USD 2.6 million which primarily arose on the NOK denominated NEC01 bond, cash balances in Panoro Energy and exchange loss on conversion of Brazilian debts into local currency (BRL) from US dollars. The non-cash effect of the Company's warrants issued in second quarter of 2010 was a loss of USD 0.5 million compared to the initially recognised value.

Year to date net interest costs of USD 9.8 million increased by USD 3.8 million compared to the same period in 2009 and for the second quarter stood at USD 5.7 million compared to USD 4.1 million for Q1 2010. The increase is a direct result of higher interest charges prior to restructuring incurred on the Brazilian external loans and the interest on NEC-01 bond.

Income tax mainly pertains to Brazilian operations and stood at a benefit of USD 2.3 million for the first half of the year compared to an expense of USD 7.9 million for the comparable period in 2009. On a quarterly basis, the income tax benefit increased from USD 0.4 million to USD 2 million from 1Q 2010 to 2Q 2010. This is mainly due to increase in deferred tax assets recognised for the period.

Net loss for the first half of 2010 was USD 8.6 million compared to USD 16.3 million in the comparative period. 2Q 2010 resulted in a net loss of USD 6.9 million compared to USD 1.6 million in 1Q 2010.

Bonds, debt, associated warrants and other financial information

On June 30, 2010 the Company finalised the previously announced bond restructuring. Upon the demerger from NEC, Panoro Energy ASA assumed obligations as borrower for the NOK 286.5 million NEC01 bond loan. As part of this restructuring, a prepayment of approximately NOK 43 million (15%) plus accumulated interest was made to NEC01 bondholders after the close of the quarter. Remaining principal repayments amount to approximately NOK 122 million in 2011 and 122 million 2012. The loan carries a fixed interest rate of 13.5%.

The Company was in compliance with its loan covenants by the end of the quarter. At the end of the second quarter, the equity ratio was 52%, up from 34% at the end of the previous quarter. The stock price closed the quarter at NOK 5.63 per share and the PEN-J warrants closed at NOK 0.50.

Funding

In connection with the listing of the Company on the Oslo Stock exchange, the Company raised the NOK equivalent of USD 65 million at NOK 12.60 (post split) per share, fixed at a NOK/USD of 5.85 in a share issue. The shares were placed among Sector Asset Management, Norse Energy Corp ASA and other institutional and retail investors during late Q1-10. The funds were to become available contingent upon the merger being approved on June 30. However, certain shareholders requested shares prior to the merger being finalized and were authorized to waive their condition precedent. Net proceeds were adjusted for the 5% commitment fee as well as currency translation arising from the NOK/USD settlement as funds not waived were held in escrow until all conditions precedents were lifted.

The bond restructuring were finalized during the quarter and the repayment settlement were advanced in mid- July 2010. Total bond debt outstanding after the repayment stands at NOK 243.5 million with remaining principal repayments amounting to approximately NOK 122 million in 2011 and 122 million 2012.

With the recent share issue completed and a signed sales and purchase agreement for the Ajapa asset, the Company is comfortable with its funding situation. With limited firm capital expenditure liabilities over the next 12 months, and the planned farm-down process for the Round 9 assets in Brazil, the Company is further improving its financial flexibility going forward.

The Company has been discussing with a bank syndicate the opportunity to leverage on the MKB Congo operation with a ring fenced reserve based lending facility. Panoro expects to have a financing proposal completed by Q2-11, pending successful completion of the additional four well drilling program.

Cash and cash equivalents increased by USD 46 million in the second quarter to USD 56 million at the end of Q2-10. Net interest bearing debt decreased from USD 131.0 million per March 31, 2010 to USD 74.1 million per June 30, 2010.

Corporate issues

On June 8, 2010, the demerger from Norse Energy Corp. ASA ("NEC") was concluded with the listing of Panoro Energy ASA on the Oslo Stock Exchange. The shares in Panoro Energy trade under the ticker code "PEN". In connection with the demerger from NEC, each shareholder of NEC received one share in PEN for every 10 shares held in NEC. Similarly, each NEC-J warrantholder received one PEN-J warrant for every 10 NEC-J warrants. 7.5 million PEN-J warrants were listed on the Oslo Stock Exchange on June 15, 2010. The warrants have a strike price of NOK 15.71 and expire on July 1, 2011.

In the first quarter 2010, Norse Energy announced its intention to form a South Atlantic oil and gas independent by merging its Brazilian assets with London-based Pan Petroleum, an oil company focusing on assets in West-Africa. The merger proposal was approved by an Extraordinary General Meeting on April 26, 2010. Financing for the estimated capital requirements for the first 12 months in the combined company was secured through a USD 65 million private placement in March 2010.

The merger was finalised on June 29, 2010. Following the merger and the USD 65 million private placement, there are 163,947,081 shares outstanding in Panoro Energy ASA, each with a nominal value of NOK 1.46. 95,638,921 shares in the Company are non-listed shares issued under a different ISIN until a prospectus has been approved and filed, such filing is expected to take place in September 2010 where after these shares will be automatically converted into ordinary listed shares.

On July 7, 2010, the Extraordinary General Meeting (EGM) in Panoro Energy ASA elected Ernst & Young as auditor of the Company. Furthermore, the EGM elected new members of the Board of Directors (BOD) in the Company. Dr. Phil Vingoe was elected Chairman of the BOD and subsequently members of the BOD consist of Dr. Phil Vingoe, Tord Pedersen, Christine M. K. Wheeler, Ragnar Søegaard and Katherine Støvring. For more information on the members of the BOD, please visit www.panoroenergy.com.

Risks & uncertainties

Financial risks & Uncertainties

The Company may be unable to raise sufficient funds through public or private financing, strategic relationships and/or other arrangements to meet its ongoing or 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.

There can be no assurance that any funding will be available on sufficiently attractive terms. Furthermore, any debt financing, if available, may involve restrictive covenants. If the financing available to the Company is insufficient to meet its financing needs, it may be forced to reduce or delay capital expenditures, sell assets or businesses at unanticipated times and/or at unfavourable prices or other terms, seek additional equity capital or restructure or refinance its debt. There can be no assurance that such measures would be successful, would be adequate to meet the Company's financing needs or would not result in the Company being placed in a less competitive position.

The Company 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. Any credit losses incurred by the Company may have a material adverse effect on the Company's business, financial condition, results of operations and cash flow.

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) and the Brazilian Real (BRL).

Because the Company 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. Decreases in the value of its operating subsidiaries' functional currencies against the USD tend to reduce those operating subsidiaries' contributions in USD terms to the Company's business, financial condition, results of operations and cash flow.

In addition to currency translation risk, the Company is exposed to fluctuations in the currencies in which its costs and expenses are incurred. Decreases in the value of its operating subsidiaries' functional currencies against other currencies in which costs and expenses are incurred will increase operating subsidiaries' costs and expenses and negatively impact their operating margins.

The Company currently has interest rate risk exposure arising from changes in USD, BRL (Brazil only) and NOK interest rates on long-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed-rates expose the Company to fair value interest rate risk. Currencies the Company is exposed to may change over time.

The nature of the Company's industry is subject to considerable price volatility, over which the Company holds little control, and a material decline in commodity prices could result in a decrease in our production revenue. To manage this risk, the Company strives to keep a balance between fixed and floating price contracts, however there can be no assurance that such measures are sufficient to mitigate this risk. A decline in commodity prices may as a consequence materially and adversely affect the Company's business, financial condition, results of operations and cash flow.

The Company may in certain situations need to obtain consents and approvals from governmental authorities and other third parties in connection with change of ownership and corporate restructurings. A number of the Company's contracts have change of control or pre-emption clauses. There can be no assurance that such consents will be granted, or that they will be granted free of conditions, in each case.

Operational risks & Uncertainties

The development of oil and gas fields in which the Company is involved is associated with technical 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 operational risk related to exploration success and development of industry cost.

On Manati in Brazil, our ability to maximise the value of this asset is dependent on entering an agreement to sell the remaining reserves on the field, beyond the 23 million cubic meters currently under the contract. Whilst discussions are ongoing with Petrobras and we believe the risk of not agreeing to sell the remaining volumes is very small, the consequences of not being able to

sell this gas would be large. Our ability to improve our cost of debt may also be affected by delays in executing this additional gas sales contract.

In the Aje field in Nigeria, we are assessing the impact of new PSDM interpretation, the lack of commercial agreements to transport and sell production, and likely cost increases. These factors may delay the movement of the project through the next gate.

On MKB in Congo-Brazzaville, the operator is relatively inexperienced. We mitigate this through the secondment of personnel into the project team however it may be difficult to drive the cost structure down to a best practice levels. It may also be difficult to deliver the best in class fracing technology being used elsewhere in the world to this difficult part of the world.

On BS-3 in Brazil, whilst we believe that the concept of an integrated development plan may be optimal for Panoro Energy, the operator Petrobras has other fields in the area it may be difficult to influence them to develop the fields in a way that is favourable to Panoro Energy. In addition, priorities in the pre-salt area in the Santos basin may deviate Petrobras' technical resources away from our relatively small fields.

On the three Brazil Round 9 blocks, there is currently a drill or drop decision in March 2011. Our ability to continue in the blocks and undertake the financial commitment of drilling a well is dependent on our ability to farm out these blocks to new partners. Whilst an extension to this March 2011 deadline is being sought, it may not be possible to achieve this.

On Ajapa in Nigeria, our sale agreement for USD 30 million is dependent on government approval and our Nigerian counterpart is currently raising the finance to be able to complete on this transaction. There is a risk that the government approves the transfer of our interest and we are not paid in a timely manner, or not at all. In this scenario we will need to use legal recourse to recover these funds.

Outlook

With encouraging initial results from Congo Brazzaville, the partners continue to progress the pilot program with the near term production testing of the two wells, before commencing the drilling of additional six wells of the pilot program in the Kundji field. A full field development plan will be agreed upon subsequent to the results from the pilot project in 2011.

In Nigeria, the Company is awaiting proof of funding and the necessary government approvals in order to complete the sale of the Ajapa field.

In Brazil, the Manati field should continue to provide the Company with production levels around the contracted level of 6 million m^3 per day, although with considerable daily volatility. Moreover, discussions for an amendment to the existing gas contract to include all additional gas volumes will continue and should open for improved lending terms as bankable reserves are to increase.

For the Round 9 licenses in Brazil, the Company aim to shortly finalise interpretation of the 3D seismic and commence a partial farm out process.

After the completion of the merger, emphasis has been on organizational integration and setting up a framework for an aligned strategy forward.

The Board of Directors

Panoro Energy ASA

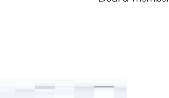
Oslo, August 26, 2010

Dr. Phil Vingoe
Chairman

Tord Pedersen
Board member

Katherine H. Støvring
Board member

Christine M.K. Wheeler
Board member



Ragnar Grundtvig Søegaard
Board member

Interim condensed consolidated financial statements

CONDENSED CONSOLIDATED STATEMENT OF COMPRHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2010

Q2	Q1	Q2			YTD	YTD
2009	2010	2010		Note	2010	2009
(Unaudited) - USD 000					'Unaudited) - USD 000	
7,781	10,236	9,695	Oil and Gas revenue		19,931	14,003
-	251	-	Other income		251	-
7,781	**10,487**	**9,695**	**Total revenues and other income**	4	**20,182**	**14,003**
839	954	1,164	Production costs		2,118	1,886
-	81	4,659	Exploration related costs	9	4,740	7,355
1,654	2,271	2,786	General and administrative costs		5,057	3,571
-	780	4,678	Merger and restructuring costs		5,458	-
5,288	**6,401**	**(3,592)**	**EBITDA**		**2,809**	**1,191**
1,690	1,811	1,966	Depreciation	7	3,777	3,170
3,598	**4,590**	**(5,558)**	**EBIT - Operating income/(loss)**		**(968)**	**(1,979)**
-	-	2,931	Gain on acquisition of subsidiary	3.2	2,931	-
(3,375)	(4,103)	(5,678)	Net finance income/(costs)		(9,781)	(6,008)
31,421	(2,513)	(47)	Net foreign exchange gain/(loss)		(2,560)	32,209
-	-	(577)	Warrants effect - gain/(loss)		(577)	-
31,644	**(2,026)**	**(8,929)**	**Income/(loss) before tax**		**(10,955)**	**24,222**
(15,397)	377	2,008	Income tax benefit/(expense)	5	2,385	(7,961)
16,247	**(1,649)**	**(6,921)**	**Net income/(loss) for the period**		**(8,570)**	**16,261**
13,526	(2,175)	(10)	Exchange differences arising from translation of foreign operations		(2,185)	13,765
13,526	**(2,175)**	**(10)**	**Other comprehensive income/(loss) for the period (net of tax)**		**(2,185)**	**13,765**
29,773	**(3,824)**	**(6,931)**	**Total comprehensive income/(loss) for the period**		**(10,755)**	**30,026**
			Net income /(loss) for the period attributable to:			
16,247	(1,695)	(5,502)	Equity holders of the parent		(7,197)	16,261
-	46	(1,419)	Non-controlling interests		(1,373)	-
			Total comprehensive income/(loss) for the period attributable to:			
29,773	(3,217)	(5,151)	Equity holders of the parent		(8,368)	30,026
-	(607)	(1,780)	Non-controlling interests		(2,387)	-
			Earnings per share (Note 6)			
0.50	(0.03)	(0.08)	(USD) – Basic and diluted for income/(loss) for the period attributable to equity holders of the parent		(0.11)	0.56

The accompanying notes form an integral part of these interim condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2010

Amounts in USD 000		30-Jun	31-Mar	31-Dec
(Unaudited)	Note	2010	2010	2009
Non-current assets				
Licenses and exploration assets	7	190,375	124,409	126,300
Production assets and equipment	7	102,856	106,380	111,300
Property, furniture, fixtures and office equipment		1,460	1,076	2,806
Deferred tax assets		27,411	24,819	22,564
Other non-current financial assets		-	301	308
Other non-current assets		1,237	1,251	1,791
Total Non-current assets		***323,339***	***258,236***	***265,069***
Current assets				
Trade and other receivables		15,383	14,709	14,715
Cash and bank balances	8	56,347	10,239	13,105
Total current assets		***71,730***	***24,948***	***27,820***
Assets classified as held for sale	10	30,000	-	-
Total Assets		***425,069***	***283,184***	***292,889***
Equity				
Share capital		38,141	76,692	76,692
Other equity		183,972	(10,842)	(7,625)
Total Equity attributable to equity holders of the parent		***222,113***	***65,850***	***69,067***
Non-controlling interests	11	-	29,477	30,084
Total Equity		***222,113***	***95,327***	***99,151***
Long-term liabilities				
Long-term interest bearing debt	12	100,665	38,284	-
Deferred tax liabilities		11,731	-	-
Liabilities related to warrants	13	577	-	-
Other long-term liabilities		24,267	20,756	20,928
Total long-term liabilities		***137,240***	***59,040***	***20,928***
Short-term liabilities				
Short-term interest bearing debt	12	29,817	39,499	80,887
Loan payable to Norse Energy Corporation ASA	14	-	63,433	57,946
Accounts payable, accruals and other liabilities		35,899	25,885	33,977
Total short-term liabilities		***65,716***	***128,817***	***172,810***
Total Liabilities		***202,956***	***187,857***	***193,738***
Total Equity and Liabilities		***425,069***	***283,184***	***292,889***

The accompanying notes form an integral part of these interim condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASHFLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2010

	30 June 2010 USD 000 (Unaudited)	30 June 2009 USD 000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income / (loss) for the period before tax	(10,955)	24,222
Adjusted for:		
Depreciation	3,761	3,170
Market adjustments for warrant effects	577	-
Non-cash exploration related costs	-	7,300
Gain on sale of property	(251)	-
Net finance costs	9,781	6,008
Other adjustments -including working capital	(20,108)	(61,770)
Net cash flows from operating activities	**(17,195)**	**(21,070)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in Exploration, production and other assets	(954)	(9,546)
Proceeds from sale of property	1,421	-
Net cash acquired at acquisitions	4,304	-
Net cash flows from investing activities	**4,771**	**(9,546)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from issuance of shares	54,851	30,000
Net interests paid	(8,417)	(2,840)
Financial liabilities raised / (repaid)	9,135	(4,117)
Net cash flows from financing activities	**55,569**	**23,043**
Foreign exchange differences	97	2,550
Change in cash and cash equivalents during the period	43,242	(5,023)
Cash and cash equivalents at the beginning of the period	10,655	7,597
Cash and cash equivalents at the end of the period	**53,897**	**2,574**

The accompanying notes form an integral part of these interim condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For six months ended 30 June 2010 Amounts in USD 000	Issued capital	Share premium	Retained earnings	Currency translation adjustment	Total	Non-controlling interests	Total equity
	Attributable to equity holders of the parent						
At 1 January 2010 (unaudited)	76,692	-	(30,005)	22,380	69,067	30,084	99,151
Income / (loss) for the period	-	-	(1,695)	-	(1,695)	46	(1,649)
Other comprehensive income	-	-	-	(1,522)	(1,522)	(653)	(2,175)
Total Comprehensive income	-	-	(1,695)	(1,522)	(3,217)	(607)	(3,824)
At 31 March 2010 (unaudited)	76,692	-	(31,700)	20,858	65,850	29,477	95,327
Income / (loss) for the period	-	-	(5,502)	-	(5,502)	(1,419)	(6,921)
Other comprehensive income	-	-	-	351	351	(361)	(10)
Total Comprehensive income	-	-	(5,502)	351	(5,151)	(1,780)	(6,931)
Re-organisation of share capital on de-merger	(76,692)	-	-	-	(76,692)	-	(76,692)
Issue of shares - for de-merger and acquisition of Pan AS	31,372	151,883	-	-	183,255	(27,697)	155,558
Issue of shares - for cash (net)	6,769	48,082	-	-	54,851	-	54,851
At 30 June 2010 (unaudited)	**38,141**	**199,965**	**(37,202)**	**21,209**	**222,113**	**-**	**222,113**

For six months ended 30 June 2009 Amounts in USD 000	Issued capital	Share premium	Retained earnings	Currency translation adjustment	Total	Non-controlling interests	Total equity
	Attributable to equity holder of the parent						
At 1 January 2009 (unaudited)	45,257	-	(40,141)	1,760	6,876	-	6,876
Income / (loss) for the period	-	-	14	-	14	-	14
Other comprehensive income	-	-	-	239	239	-	239
Total Comprehensive income	-	-	14	239	253	-	253
At 31 March 2009 (unaudited)	45,257	-	(40,127)	1,999	7,129	-	7,129
Income / (loss) for the period	-	-	16,247	-	16,247	-	16,247
Other comprehensive income	-	-	-	13,526	13,526	-	13,526
Total comprehensive income	-	-	16,247	13,526	29,773	-	29,773
Increase of share capital	41,221	-	-	-	41,221	26,950	68,171
At 30 June 2009 (unaudited)	**86,478**	**-**	**(23,880)**	**15,525**	**78,123**	**26,950**	**105,073**

The accompanying notes form an integral part of these interim condensed consolidated financial statements.

Notes to the condensed interim consolidated financial statements

1. Corporate information

The holding company, Panoro Energy ASA ("the Company" - formerly known as New Brazil Holdings 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 organisation 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 exploration and production of oil and gas resources in Brazil and Western Africa. The condensed interim consolidated financial statements of the Group for the six months ended June 30, 2010 were authorised for issue by the Board of Directors on August 26, 2010.

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

2. Basis of preparation and accounting policies

The unaudited condensed consolidated financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting", as adopted by the EU. The condensed interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the financial information contained in the Company's prospectus published on June 7, 2010. Copy of the prospectus is available on the Company's website at http://www.panoroenergy.com.

The condensed interim consolidated financial statements are presented in US Dollars and all values are rounded to the nearest thousand dollars (USD 000) except when otherwise stated.

2.1 Comparative information

Panoro Energy ASA was formed as a legal mechanism to effect a business combination between two existing entities, Norse Energy do Brasil (NEdB) and Pan Petrol Holdings (Cyprus) Limited (PPHCL), and, in its own right, had no commercial substance. The acquisitions of PPHCL and NEdB were both settled by issuance of ordinary shares in Panoro Energy ASA in exchange for voting shares in PPHCL and NEdB.

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

For the purpose of these financial statements the transaction for completion of de-merger has been considered under the guidance of paragraph B19 to IFRS 3 (Revised) and hence 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.

2.2 Adoption of new and revised International Financial Reporting Standards (IFRS) and interpretations

The Company 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 will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

  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 by IFRS 3 (Revised) and 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 noncash 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, 2009, 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 and liabilities, 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.

2.3 Significant accounting judgments, estimates and assumptions

Estimates and assumptions

The preparation of the financial statements in conformity with IFRS 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 condensed interim consolidated financial statements are as follows:

Reserves

The Group obtains reserve reports at least annually to establish the expected production profiles for the fields in production and the expected economic lifetime of the fields. Any significant reduction in reserves might lead to a write down of field investments through impairment tests, increased future depreciation and alterations of planned capital expenditures.

Exploration and leasehold costs

The Group capitalises the costs of drilling exploratory wells and leasehold costs pending determination on whether the wells have found proved oil and gas reserves. Judgments on whether these expenditures should remain capitalised or charged to exploration and dry hole cost in the period may materially impact the operating income.

Price of oil and natural gas

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

Judgments

In the process of applying the Group's accounting policies, the directors have made the following judgements, 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.

Decommissioning costs and obligations

Decommissioning costs will be incurred by the Group at the end of the operating life of certain of the Group's facilities and properties. The ultimate decommissioning 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 recognises 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 realise 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 regarding revenue based payments

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.

2. 4 Basis of consolidation

Subsidiaries

The condensed interim consolidated financial statements include Panoro Energy ASA ("Panoro") and its subsidiaries as of June 30, 2010. 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. Subsidiaries are all entities in which the Group directly or indirectly owns more than 50 percent of the voting stock or otherwise has the power to govern the financial and operating policies.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered.

Non-controlling interests in subsidiaries are identified and reported separately from the Group's equity therein. Acquisition of the minority shares can result in goodwill if the cost exceeds the carrying amount of the acquired assets. Where the acquisition cost is below the carrying amount of the acquired asset, the gain is recognised in the statement of comprehensive income at acquisition.

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

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

Segment reporting

A reportable segment is a business segment or a geographical segment identified based on the foregoing definitions for which segment information is required to be disclosed.

The operations of the Group comprise one class of business, being oil and gas exploration, development and production and in only three geographic areas: Brazil, Nigeria, Gabon and the Congo.

For management purposes the Group reports capital expenditure by licence in West Africa and by economic unit in Brazil. Operating segments comprise: Dussafu Marin, JDZ3, OML90 –Ajapa, OML 115, OML113 and Manati and Brazil licences which includes Sardinha, BS3 and Round 9 licences.

2.5 Foreign currency translation

Functional currency and presentational currency

The consolidated financial statements are presented in USD, which is the functional currency of Panoro. 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 Group's consolidated financial statements are presented in US dollars, which is the parent company's functional currency: all values are rounded to the nearest thousand (USD 000), except when otherwise indicated.

The functional currency of the Group's subsidiaries incorporated in Gabon, Nigeria, Cyprus, Holland, 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 Reais ('BRL') and for the British subsidiaries is the Pound Sterling ('GBP').

The foreign exchange rates applied for the interim periods were:

	30 June 2010		31 Dec 2009	30 Jun 2009 - HY	Q2 2010	Q1 2010	Q4 2009
	Average rate	Reporting rate	Reporting rate	Reporting rate	Average rate	Average rate	Average rate
Brazilian Real /USD	1.7965	1.8015	1.7412	1.9516	1.7927	1.8003	1.7387
USD/GBP	N/A	1.4459	N/A	N/A	N/A	N/A	N/A

Transactions and balances

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

Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
(ii) income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
(iii) all resulting exchange differences are recognised as a separate component of equity.

Change in functional currency in Brazil

After the production from the Coral field ceased in the fourth quarter 2008, the Company's subsidiaries Norse Energy do Brasil ("NEdB") and Coplex Petroleo do Brasil ("Coplex") no longer had revenues denominated in US dollar. Costs for these entities are mainly denominated in Brazilian Reais. As a result, management concluded that as of January 1, 2009, Reais will be the appropriate currency of the primary economical environment in which NEdB and Coplex operate.

Following this development, it was deemed necessary to change the functional currency of these two subsidiaries from US dollar to Brazilian Reais. The Company's subsidiary Rio das Contas, with its 10% Manati ownership, remains a Reais functional currency entity. In accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates", the change of functional currency is

accounted for prospectively. All items are translated into the new functional currency using the exchange rate at the date of the change (January 1, 2009). For non-monetary items, the resulting translated amounts are carried at their historical cost, being the BRL translated amount of January 1, 2009.

2.6 Licence 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 capitalised when it is considered probable that future economic benefits will be recoverable. Until such time, E&E expenditure is expensed as incurred: regardless of the probability that future economic benefits will be recoverable, pre-licence costs are expensed as incurred.

E&E expenditure capitalised as intangible assets include license acquisition costs, exploration drilling. Exploration and evaluation expenditure which is not sufficiently closely related to a specific mineral resource to support capitalisation 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. Costs to drill exploratory wells that do not find proved reserves, exploratory geological and geophysical costs, and costs of carrying and retaining unproved properties are expensed.

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 amortisation is charged during the exploration and development phase. If however, commercial reserves have not been discovered, the capitalised 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 capitalised 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 amortisation is charged during the exploration and evaluation phase.

Oil & gas production assets

Development and production assets are accumulated generally on cash generating unit basis and represent the cost of developing the commercial reserves discovered and bringing them in to 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, finance costs capitalised and the cost of recognising 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/amortisation

Oil and gas properties and intangible assets are depreciated or amortised 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 future 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 the cash flows of each field are interdependent.

2.7 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.

2.8 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. Land is not depreciated. Depreciation of other assets is calculated on a straight line basis as follows:

Property	4%
IT and computer equipment	20% to 33.33%
Furniture, fixtures & fittings	10% to 33.33%

2.9 Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. This category comprises derivatives unless they are effective hedging instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. This category comprises trade and other receivables and cash.

2.10 Derivative financial instruments

Derivative financial assets and financial liabilities are financial instruments whose value changes in response to an underlying variable, require little or no initial investment and are settled in the future. The Company may use derivatives such as foreign exchange forward contracts to minimise risks of changes in foreign exchange rates. The Group would not apply hedge accounting in respect of forward foreign exchange contracts as the management believes that any future derivative would not qualify for hedge accounting. Consequently, movements in the fair value of derivative instruments would be immediately recognised in the statement of comprehensive income.

2.11 Business combinations, goodwill, asset purchases and disposals

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 amortised. 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 assets 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, no deferred tax gross up arises, and the consideration is allocated to the assets and liabilities purchased on an appropriate basis.

Proceeds on disposal 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.

2.12 Trade and other receivables

Trade and other receivables are presented at recoverable amounts. 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.

2.13 Cash and cash equivalents

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

2.14 Inventories

Inventories, except for petroleum products, are valued at the lower of cost and net realisable value. Petroleum products and under and over lifts of crude oil are recorded at net realisable value, under inventories and other debtors or creditors respectively.

2.15 Share capital

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.16 Non-current assets held for sale

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

2.17 Trade payables

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

2.18 Borrowings and loans

All borrowings are initially recorded at fair value. Interest-bearing loans and overdrafts are initially recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs,

are accounted for on an accruals basis to 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. Differences arising on the discounting of loans from owners are recorded as separate component of equity.

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

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

2.19 Current and deferred income tax

Current tax is the amount expected to be paid in respect of taxable profits for the current and prior periods. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the date of the statement of financial position in the countries where the Group's subsidiaries and operate and generate taxable income.

Deferred income tax is provided in full, using the liability method for tax loss carry forward and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting, nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the date of the statement of financial position and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

2.20 Provisions

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 provisions.

2.21 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of petroleum products in the ordinary course of the Group's activities. Revenue is shown net of value added tax, returns, rebates and discounts and after eliminating sales within the Group.

Revenue from petroleum products

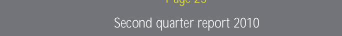
Revenue from the sale petroleum products are recognised as income using the "entitlement method". Under this method, revenue is recorded on the basis of the asset's proportionate share of total gas sold from the affected wells. Revenue is stated net of value-added tax and royalties.

Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

Rendering of services

Sales of services are recognised 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.



2.22 Leases

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 capitalised 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.

Capitalised 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 recognised as an expense in the statement of comprehensive income on a straight line basis over the lease term.

2.23 Pension expenses

All employees in Norway and the UK are organised under a defined contribution plan in which pension fund contributions are charged to profit upon payment. There is no pension plan for the employees in Brazil.

2.24 Classification in statement of financial position

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

3. Business combination

The general meeting of the Company approved a merger with Pan-Petroleum Holding AS on April 26, 2010. This business combination was aimed to create a strong South Atlantic oil & gas independent with a reserve and resource base and establishes a solid foundation for further growth through additional M&A activities. The combination of assets was based on a 50/50 equity valuation of Norse Energy do Brasil and Pan-Petroleum.

3.1 Panoro Energy ASA

As per the merger plan, NEC completed the de-merger of assets held through the subsidiary Norse Energy do Brasil on June 7, 2010 whereby every shareholder in NEC was given shares in Panoro in equivalent proportion. As a consequence, the net assets in Norse Energy do Brasil (NEdB) were legally acquired by the Company as of this date. As per the requirements of IFRS 3 "Business Combinations" (as revised in 2008), the de-merger has been deemed as an intermediary transaction by NEC necessary to execute the merger with Pan Petroleum and therefore has been accounted for under the pooling of interests method.

The pooling of interests approach adopted has a number of consequences including that:

- The Group's half year condensed financial statements are prepared on the basis that NEdB and Panoro had always been combined, with the results of NEdB and Panoro included for six months ended June 30, 2010; comparative data for income statement for these condensed financial statements only relates to NEdB as Panoro had no operations prior to 2010.
- The carrying value of NEdB net assets are unadjusted for the combination with Panoro under the pooling of interests method; no goodwill arises as a result of the combination of Panoro with NEdB.

The significant assets and liabilities that were carved out from NEC and designated to Panoro as a consequence of de-merger are as follows:

(i) As per the business combinations agreement dated January 22, 2010, upon completion of the de-merger, the Company assumed obligations as borrower under the NEC 01 loan of NOK 286.5 million (USD 42.7 million). This liability was allocated from Norse Energy Corporation and all necessary approvals were completed as of June 7, 2010.
(ii) The Company issued 7.5 million warrants on June 15, 2010 to the existing warrant holders in NEC in the same proportion of the reverse share split of 10:1. The warrants are exercisable by July 1, 2011 at NOK 15.71 in exchange of one warrant to one share in the Company.
(iii) Attributable tax loss of approximately NOK 351 million equivalent to USD 53 million was available to the Company as a consequence of the de-merger. The loss will be available indefinitely to offset future taxable income of the Company.

3.2 Pan-Petroleum Holding AS

At the time of the de-merger, Pan Holding AS (Pan AS) a newly incorporated Company under Norwegian law acquired 30% interest in NEdB which represented the existing direct share of Sector asset management in NEdB. This represented share of Sector Asset Management in NEdB which was intermediately held in Pan AS to execute the merger. 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. On June 29, 2010 the merger became effective and the Company completed the acquisition of Pan AS through issue of 86,942,990 equity shares in exchange of 100% holding in Pan AS. Of these, 20,063,766 shares represented consideration for 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 Energy ASA and Pan AS under the Norwegian law and immediately following the completion, Pan AS ceased to exist with all assets and liability in Pan AS deemed directly owned by Panoro.

Consideration as of June 29, 2010

		USD 000 (Unaudited)
Issue of ordinary shares (66,879,224 shares at USD 0.94)	(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 (Unaudited)
Cash and cash equivalents		4,304
Furniture, fixtures and equipment		299
Prepayments and other receivables	(ii)	1,877
Intangibles, exploration and evaluation assets		67,491
Assets held-for-sale		30,000
Total Assets		103,971
Accounts payable, accruals and other liabilities		12,593
Loan from Shareholder (Sector)		10,243
Income tax payable		55
Deferred tax liability		11,731
Long-term liabilities		3,351
Total liabilities		37,973
Fair value of net assets at acquisition		65,998
Gain on bargain purchase	(iii)	(2,931)
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 bargain purchase 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 USD 0.5 million to revenue and a loss of USD 7.5 million to the group.

(v) From the date of acquisition to June 30, 2010, the acquired business did not contribute to any revenues and group's results.

(vi) Acquisition related costs included advisory fees which have been recognised in the Company's statement of comprehensive income amounted to USD 4.2 million. Pre-acquisition merger and de-merger related costs approximated to USD 1.3 million comprising legal, consultancy and advisory costs.

4. Segment information

The Group operated predominantly in two business segment being the exploration and production of oil and gas, which is split by licence for management purposes and four geographical segments being Nigeria, Gabon, Congo and Brazil.

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

- The Dussafu segment holds the Group's 33.3% working interest in the Dussafu Marin exploration licence in Gabon.
- The JDZ 3 segment holds the Group's 10% working interest in the JDZ 3 exploration licence in Nigeria.
- The OML113 – Aje segment holds the Group's 12.5% profit interest in the OML113-Aje exploration licence in Nigeria.
- The MKB Congo segment holds the Groups 20% working interest in MKB exploration licence in Republic of Congo.
- The Brazilian segment holds the following assets:
  - The BCAM-40 prospect holds the Group's 10% interest in Manati which is a producing field in Brazil. This also includes 10% interest in Camarao Norte field which is at a development stage.
  - The BS-3 Project holds Group's interest in a portfolio of offshore licences in Santos basin, Brazil comprising 50% interest in Cavalo Marinho, 65% interest in Estrela-do-Mar and 35% in Coral field which is being considered for redevelopment.
  - The Sardinha licence area holds the Group's 20% interest in the Sardinha field located in Camamu-Almada basin in Brazil. This field is being considered for development.
  - Round 9 blocks represents Group's 50% interest in blocks S-M-1100, S-M-1035 and S-M-1036 acquired in 2007. These blocks are in close proximity to the Coral field. A Company owned subsidiary operates these blocks.
- The 'Other' category consists of head office and service company operations that are not directly attributable to the other segments.
- Interest in licence OML 90 – Ajapa has been classified as an asset held for sale and therefore not considered as an operating segment.

Management monitors the operating results of business segments separately for the purpose of making decisions about resources to be allocated and of assessing performance. Segment performance is evaluated based on capital expenditure and production levels.

Details of group segments are reported below.

Q2 2009	Q1 2010	Q2 2010		YTD Q2 2010	2009*
USD 000 – (Unaudited)				USD 000 – (Unaudited)	
			OPERATING SEGMENTS - PRODUCTION FIGURES		
Group production BOE/day					
2,932	3,528	3,360	Manati - net of our interest	3,444	2,742
-	-	-	Coral - net of our interest	-	40
2,932	**3,528**	**3,360**	**Group total BOE/day**	**3,444**	**2,782**
Production					
			Natural gas production (MMBtu)		
1,527,780	1,812,006	1,739,814	Manati - net of our interest	3,551,820	2,842,319
-	-	-	Coral - net of our interest	-	-
			Oil production (BOE)		
-	-	-	Manati - net of our interest	-	-
-	-	-	Coral - net of our interest	-	7,228
Price per unit					
			Estimated gas price (USD/MMBtu before royalties and taxes)		
6.80	7.70	7.73	Manati	7.71	6.48
-	-	-	Coral	-	-
			Oil price (USD/Bbl - before royalties and taxes)		
-	-	-	Manati	-	-
-	-	-	Coral	-	41.23
			OPERATING SEGMENTS - (BRAZIL)		
			in USD 000		
			Manati and Brazil licences		
-	-	-	Sales - Oil	-	279
7,781	10,236	9,695	Sales - Gas	19,931	13,724
-	251	-	Other revenue	251	-
5,288	8,194	1,991	EBITDA	10,185	1,191
1,690	1,802	1,957	Depreciation	3,759	3,170
-	283,184	-	Segment assets	283,587	272,334
			Coral (Brazil)		
-	-	-	Sales - Oil	-	-
-	-	-	Sales - Gas	-	-
-	-	-	Other revenue	-	-
-	-	-	EBITDA	-	-
-	-	-	Depreciation	-	-
-	-	-	Segment assets	-	-

			OPERATING SEGMENTS - THE EXPLORATION AND EVALUATION ASSETS IN WEST AFRICA		
			in USD 000		
			Dussafu (Gabon)		
-	-	7,913	Segment assets acquired	7,913	-
			JDZ 3 (Nigeria)		
-	-	-	Segment assets acquired	-	-
			OML 113 - Aje (Nigeria)		
-	-	39,000	Segment assets acquired	39,000	-
			MKB (Congo)		
-	-	-	Segment assets acquired	20,583	-
Others					
-	(1,802)	(5,590)	EBITDA	(7,392)	-
-	9	9	Depreciation	18	-
-	-	46,846	Segment assets	46,846	-
-	-	-	Assets held-for-sale	30,000	-
			CONSOLIDATED		
			in USD 000		
-	**-**	**-**	Sales – Oil – Total	**-**	**279**
7,781	**10,236**	**9,695**	Sales – Gas – Total	**19,931**	**13,724**
-	**251**	**-**	Other revenue – Total	**251**	**-**
5,288	**6,401**	**(3,593)**	EBITDA – Total	**2,808**	**(1,979)**
1,690	**1,811**	**1,966**	Depreciation- Total	**3,777**	**3,170**
-	**283,184**	**-**	Segment assets – Total	**395,069**	**292,889**
-	**-**	**-**	Assets held-for-sale - Total	**30,000**	**-**

*The segment assets represent as of December 31, 2009 and the statement of comprehensive income items represent year to date results for June 30, 2009.

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

There are no inter-segment adjustments and eliminations for the periods presented.

5. Income tax

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

Q2 2009	Q1 2010	Q2 2010		YTD Q2 2010	YTD Q2 2009
USD 000 – (Unaudited)				USD 000 – (Unaudited)	
			Income Taxes		
(1,886)	(605)	(336)	Current income tax expense	(941)	(1,097)
(13,511)	982	2,344	Deferred income tax expense	3,326	(6,864)
(15,174)	377	2,008	Total tax benefit / (charge) for the period	2,385	(7,961)

On de-merger from Norse Energy Corporation in June 2010, attributable tax loss of NOK 351 million equivalent to approximately USD 53 million was assigned to the Company. The loss will be available indefinitely to offset future taxable income of the Company.

6. Earnings per share

The group had no potential dilutive ordinary shares as of the periods reported in these interim condensed consolidated financial statements.

Q2 2009	Q1 2010	Q2 2010		YTD Q2 2010	YTD Q2 2009
	(Unaudited)		*Amounts in USD 000, unless otherwise stated*	(Unaudited)	
16,247	1,695	(5,502)	Net loss attributable to equity holders of the parent	(7,197)	16,261
32,518	66,879	67,909	Weighted average number of shares outstanding - in thousands	67,397	29,146
0.50	(0.03)	(0.08)	Basic and diluted earnings per share (USD)	(0.11)	0.56

The weighted number ordinary shares for all the periods presented above have been adjusted by the exchange ratio at the de-merger 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 and March 31, 2010, no warrants were outstanding for the Group. The 7.5 million warrants issued on June 15, 2010 were outstanding as of June 30, 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 quarter. Further, since the Group incurred a net loss for the current quarter and 1H 2010, the warrants have an anti-dilutive effect and therefore, not considered when calculating diluted earnings per share.

7. License interests, exploration and evaluation assets and production assets

	Licence interest, Exploration and Evaluation Assets	Production assets
	(Unaudited)	(Unaudited)
	USD 000	USD 000
Net book value		
At 1 January 2010	126,300	111,300
Additions	927	-
Exploration costs expensed	-	-
Depreciation	-	(1,802)
Currency translation adjustments and other changes	(2,818)	(3,118)
At 31 March 2010	124,409	106,380
Additions	-	-
Acquisition of subsidiary (Note 3)	67,491	-
Exploration costs expensed	-	-
Depreciation	-	(1,957)
Currency translation adjustments and other changes	(1,525)	(1,567)
At 30 June 2010	190,375	102,856
At 31 December 2009	126,300	111,300

8. Cash and cash equivalents

	30 Jun 2010 (Unaudited) USD 000	30 Jun 2009 (Unaudited) USD 000
Cash at bank and in hand	56,347	5,868
Less: Restricted cash	(2,450)	(3,294)
Cash and cash equivalents at the end of the period	53,897	2,754

9. Exploration and related costs

Q2 2009	Q1 2010	Q2 2010		YTD Q2 2010	YTD Q2 2009
USD 000 – (Unaudited)				USD 000 – (Unaudited)	
			Exploration costs expensed		
-	-	-	Dry well costs	-	7,300
-	81	4,659	Other exploration costs expensed	4,740	55
	81	4,659	***Total exploration costs charged to statement of comprehensive income***	4,740	7,355
-	-	-	Exploration costs capitalised during the period	-	-
-	81	4,659	**Total exploration expenditure during the period**	4,740	7,355

10. Assets held for sale

During the period, a Group's subsidiary has entered into an agreement with Brittania-U Nigeria Limited sell its license interest of 40% in OML 90- Ajapa for a consideration of USD 30 million. The sale is subject to certain regulatory approvals which are not complete as of the date of the statement of financial position.

11. Non-controlling interests

The non-controlling interests represent 30% shareholding of NEdB controlled by Sector in the periods prior to the de-merger.

12. Financial liabilities

12.1 Interest bearing debt

	Note	30 Jun 2010 (Unaudited) USD 000 Short-term	30 Jun 2010 (Unaudited) USD 000 Long-term	31 Mar 2010 (Unaudited) USD 000 Short-term	31 Mar 2010 (Unaudited) USD 000 Long-term	31 Dec 2009 (Unaudited) USD 000 Short-term	31 Dec 2009 (Unaudited) USD 000 Long-term
Norway							
NOK denominated loans	12.2	6,615	36,132	-	-	-	-
Brazil							
USD denominated loans		-	-	20,658	-	21,138	-
BRL denominated loans	12.3	12,959	64,534	18,841	38,284	59,749	-
Cyprus							
USD denominated loans	12.4	10,243	-	-	-	-	-
Total		29,817	100,666	39,499	38,284	80,887	-

Summary of loans

	Note	Amount due (USD million)	Expiry
Norway			
NEC-01 bond	12.2	42.7	2 years
Brazil			
Treasury loan	12.3	33.2	5 years
BNDES I loan	12.3	24.3	7 years
BNDES II loan	12.3	20.1	9 years
Cyprus			
Sector Loan	12.4	10.2	1 month
Total		130.5	

12.2 Upon the de-merger from NEC, the Company assumed obligations as borrower for the NOK 286.5 million NEC01 bond loan under restructured terms. An aggregate principal amount of NOK 43 million plus accrued and unpaid interest thereon is payable in July 2010. A principal amount of NOK 122 million of the loan matures on July 13, 2011, together with any accrued and unpaid interest thereon; while the remaining loan shall mature and be due and payable on July 13, 2012, together with any accrued and unpaid interest thereon payable every quarter. The loan carries a fixed interest rate of 13.5% from July 13, 2010 onwards.

The bonds are listed on Oslo Stock Exchange (OSE) under the ticker "NEC01". The main covenants of the bond loan after de-merger are as follows:

- The parent Company must maintain at all times the book equity of USD 14 million after March 31, 2011.
- After March 31, 2011, the total equity in the Company shall constitute at least 30% of capital employed. "Capital employed" is defined as the Company's total equity plus interest bearing debt, including financial instruments that have the commercial effect of borrowing, including guarantees and leasing commitments.
- The Company shall not make or declare any distributions and procure that NEdB does not make or declare any distributions to any shareholders other than the Company until the Outstanding Intercompany amount due is zero.
- The Company shall not provide guarantees or other credit support to, or make investments in, any person or entity outside the Group, other than when backed by additional equity as prescribed in the loan agreement.

For the complete list of covenants the Company is subject to, please refer to investor section of Panoro Energy ASA's website on www.panoroenergy.com.

12.3 A debt restructuring agreement has become effective during the period for loans in Brazil. Under the renegotiated terms, the BNDES II disbursement has replaced the current bridge loan and the refinancing agreement with the local banks include a new treasury fund loan that has replaced the current loans in Coplex and NEdB as well as the project finance loans in Rio das Contas. All loans have been converted into Reais (BRL) and transferred to Rio das Contas, pledged against Manati cash flow and the shares in Rio das Contas. Under the restructured position, all of the three loan agreements reside in Rio das Contas. Coplex and NEdB have no local bank debt after this transaction. The BNDES I loan is continuing without changes and subject to interest of TJLP plus 6.8%. The BNDES II credit facility is divided into four tranches which have one year grace period, are then amortised over 96 months and carry an interest rate of TJLP plus a 5.8%.

The treasury fund loan has a one year grace period and is then amortised over 48 months and carry an interest of CDI (interbank rate as of June 30, 2010 at 10.1%) plus 7.5%. The treasury fund loan includes a cash sweep clause that any surplus cash in Rio das Contas will be used to amortise this loan. The cash sweep clause ceases after the treasury fund loan is repaid.

The main covenants for the Brazilian loans are as follows:

- Maintain an Equity Ratio above 30:70. (Total Equity over Third Party Funds (short term +long term liabilities).
- Maintain the Debt Service Coverage Ratio (DCSR) higher than 1.30. DSCR = (EBITDA - Income tax payment) / (Principal + Interest amortisation).
- Restriction of distributing any funds from the Rio das Contas to the shareholders until repayment of the loans.
- The cash currently generated in Brazilian operations all originate in Rio Das Contas. The loan agreement for the Brazil bank debt restricts the Brazil group from applying such cash flows to serve other financial debt in the group.

12.4 This loan was acquired under the business combination with Pan-Petroleum and is repayable with accrued interest and commitment fee to Sector Asset Management by August 1, 2010. The loan has an effective cost of 10% per annum. The represented an advance by Sector for the pre-IPO share subscription and was to be repaid out of the share issue proceeds.

13. Liability related to warrants

As part of the de-merger from NEC, 7.5 million warrants were issued by the Company on June 15, 2010. One warrant gives 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.

14. Loan payable to Norse Energy Corporation ASA

This balance for December 31, 2009 and March 31, 2010 represented intercompany loan payable to the previous parent company Norse Energy Corporation ASA. Subsequent to the de-merger, the beneficial lender has been converted to Panoro Energy ASA and therefore eliminates on consolidation as of June 30, 2010. The loan carries a fixed interest rate of 10% per annum and was repayable by June 30, 2010 in the prior periods presented.

15. Share capital and premium

	Date	Number of shares (Unaudited)	Share Capital (Unaudited) USD 000
Shares issued during the period on account of:			
- De-merger from NEC	7 June 2010	46,815,456	11,437
- Merger with Pan AS	29 June 2010	86,942,990	19,935
Shares issued and subscribed for cash:			
- Capital increase (pre-merger)	7 June 2010	15,282,872	3,418
- Capital increase (post-merger)	29 June 2010	14,905,763	3,351
As at 30 June 2010		163,947,081	38,141

All issued shares have a par value of NOK 1.46 and are of equal rights. The Company is incorporated in Norway and the share capital is denominated in NOK. In the table above, the issued capital 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 de-merger from NEC. The warrants give the right to new ordinary shares at NOK 15.71 per share as detailed in note 13.

16. Related party transactions

The following table provides the total amount of balance and transactions which have been outstanding and entered into with related parties. Balances reported are as of June 30, 2010 and December 31, 2009. Transactions reported in this note have been entered into with related parties during the six months ended June 30, 2010 and June 30, 2009.

	Note	Year	Amounts owed by related parties USD 000 (Unaudited)	Amounts owed to related parties USD 000 (Unaudited)	Interest received / (paid) USD 000 (Unaudited)	Management fee charged USD 000 (Unaudited)
Shareholders						
Loan from Sector (including interest payable)	12.4	**2010**	**-**	**10,243**	**-**	**-**
		2009	-	-	-	-
Previous controlling entity (NEC)						
• Interest bearing sub-ordinated loan (including interest payable)	14	2009	-	57,946	-	-
• Management fee		**2010**	**-**	**-**	**-**	**346**
• Management fee		2009	-	-	-	270
Loans and advances to key management personnel of the group						
Interest bearing loan to Chief Executive Officer	16.1	**2010**	**1,110**	**-**	**17**	**-**
		2009	1,149	-	14	-

There were no sales and purchase between related parties during the reported periods which require disclosures.

16.1 The loan to Chief Executive Office was advanced as per his terms of employment with NEdB in 2008 and carries an interest of 3% per annum. The loan is repayable in full in 2013 and the monthly accumulated interest is paid through salary deductions.

16.2 With effect from July 2010, as part of the temporary relocation arrangement for the Company's Chief Executive to London, the Company has entered into a contract to lease a residential property up to July 2012. Commitments in respect of this contract are disclosed in note 17.

17. Contingencies and commitments

Contingencies

The Company's subsidiary entered into a Sale and Purchase Agreement on January 8, 2010 with Prevail Energy Holdings Limited to acquire licences and assets in Congo relating to MKB.

As part of the agreed transaction, the group will pay a contingent consideration in the form of Panoro shares conditioned upon certain success triggers being achieved by the Group in the MKB permit. These triggers are related to geological and operational events that will significantly increase the value of the licence if attained.

As per the agreement and subject to the occurrence of the triggers specified therein, a maximum of 4,362,791 shares may be issued to certain stakeholders of Prevail Energy Holdings Limited. An estimated fair value of the consideration payable has been determined at USD 3.3 million and has been recognised in the June 30, 2010 financial statements as a liability. This estimate has been determined using valuation techniques and reasonable probability assumptions as of the reporting date and may change in future should any new operational information become available to the Group.

Commitments

Commitments in respect of operating leases were due in the following periods as of June 30, 2010:

	Within 1 year USD 000 (Unaudited)	1 to 5 years USD 000 (Unaudited)	More than 5 years USD 000 (Unaudited)
Office property lease rentals	934	3,140	592
CEO's residential property lease rentals	94	97	-
Total	1,028	3,237	592

18. Events after the reporting period

In the Extraordinary General Meeting of July 7, 2010, the shareholders approved the appointment of Ernst & Young as auditors of the Company.

In the same meeting, the shareholders approved the appointment of Dr. Phil Vingoe as Chairman on the board and accepted the resignation of Dag-Erik Rasmussen from the Board. Tord Pedersen and Christine Wheeler were appointed as new members of the Board of Directors.

In the Extraordinary General Meeting of August 13, 2010, the shareholders approved the following items:

- Remuneration to the Board of Directors for 2010 was fixed at NOK 550,000 per annum to the Chairman of the Board and NOK 350,000 per annum to each Board Member. In addition, NOK 50,000 per annum was approved for each director for participation in Directors' subcommittee meetings. It was also resolved that no remuneration be paid for the first four months of 2010.
- The Board of Directors were authorised to conduct share capital increases by way of share issue. A maximum of 16,394,708 were authorised for issue at a nominal value of NOK 1.46 each. This authorisation is valid to earlier of the ordinary general meeting of the Company or June 30, 2011.
- The Board was authorised to issue shares to Company's employees and leading personnel under Company share incentive program which is in the process of being formalised. A maximum of 10,656,560 shares at NOK 1.46 each of nominal value

were authorised to issue for this purpose at Board's discretion. This authorisation is valid to earlier of the ordinary general meeting of the Company or June 30, 2011.

- The board was authorised to issue consideration shares to Prevail Energy Holdings Ltd. under an agreement, a maximum of 4,362,924 shares at nominal value of NOK 1.46 each. This authorisation is valid to earlier of the ordinary general meeting of the Company or June 30, 2011.

On August 17, 2010, the Board of Directors approved a grant of 7,000,000 share options to the management and the employees under the Company's options programme. Vesting of these options will be over a three year period, with 1/3 of the options exercisable each year. The strike price of the options was set at NOK 6.0, which is to be increased by 8 percent after year two and additional 8 percent annually thereafter. The strike 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;

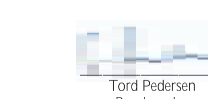
2,333,333 options have a vesting period until August 17, 2012 and can be exercised until August 17, 2013 at NOK 6.48 or until August 17, 2014 at NOK 7.0; and

2,333,333 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, 3,125,000 options have been allocated to key employees and the Chairman of the BOD. The remaining 3,875,000 options will be distributed to other employees of the Company under the same conditions. The remaining options under the authorisation have not yet been allocated or distributed.

Responsibility statement

We confirm to the best of our knowledge that the condensed set of interim consolidated financial statements as of June 30, 2010 has been prepared in accordance with IAS 34 Interim Financial Reporting and gives a true and fair view of the Company's assets, liabilities, financial position and result for the period viewed in their entirety, and that the interim management report in accordance with the Norwegian Securities Trading Act section 5-6 fourth paragraph includes a fair review of any significant events that arose during the six-month period and their effect on the half-yearly financial report, and any significant related parties transactions, and a description of the principal risks and uncertainties for the remaining six months of the year.



Dr. Phil Vingoe
Chairman

Tord Pedersen
Board member

Katherine H. Støvring
Board member

Christine M.K. Wheeler
Board member

Ragnar G. Søegaard
Board member

Kjetil Solbrække
Chief Executive Officer

Other information

Financial calendar

November 26, 2010	Third Quarter 2010 Results

Glossary and definitions

Bbl	One barrel of oil, equal to 42 US gallons or 159 liters
Bcf	Billion cubic feet
Bm³	Billion cubic meter
BOE	Barrel of oil equivalent
Btu	British Thermal Units, the energy content needed to heat one pint of water by one degree Fahrenheit
IP	Initial production
Mcf	Thousand cubic feet
MMcf	Million cubic feet
MMBOE	Million barrels of oil equivalents
MMBtu	Million British thermal units
MMm³	Million cubic meters
Tcf	Trillion cubic feet

Disclaimer

This presentation does not constitute an offer to buy or sell shares or other financial instruments of Panoro Energy ASA ("Company"). This presentation contains certain statements that are, or may be deemed to be, "forward-looking statements", which include all statements other than statements of historical fact. Forward-looking statements involve making certain assumptions based on the Company's experience and perception of historical trends, current conditions, expected future developments and other factors that we believe are appropriate under the circumstances. Although we believe that the expectations reflected in these forward-looking statements are reasonable, actual events or results may differ materially from those projected or implied in such forward-looking statements due to known or unknown risks, uncertainties and other factors. These risks and uncertainties include, among others, uncertainties in the exploration for and development and production of oil and gas, uncertainties inherent in estimating oil and gas reserves and projecting future rates of production, uncertainties as to the amount and timing of future capital expenditures, unpredictable changes in general economic conditions, volatility of oil and gas prices, competitive risks, regulatory changes and other risks and uncertainties discussed in the Company's periodic reports. Forward-looking statements are often identified by the words "believe", "budget", "potential", "expect", "anticipate", "intend", "plan" and other similar terms and phrases. We caution you not to place undue reliance on these forward-looking statements, which speak only as of the date of this presentation, and we undertake no obligation to update or revise any of this information

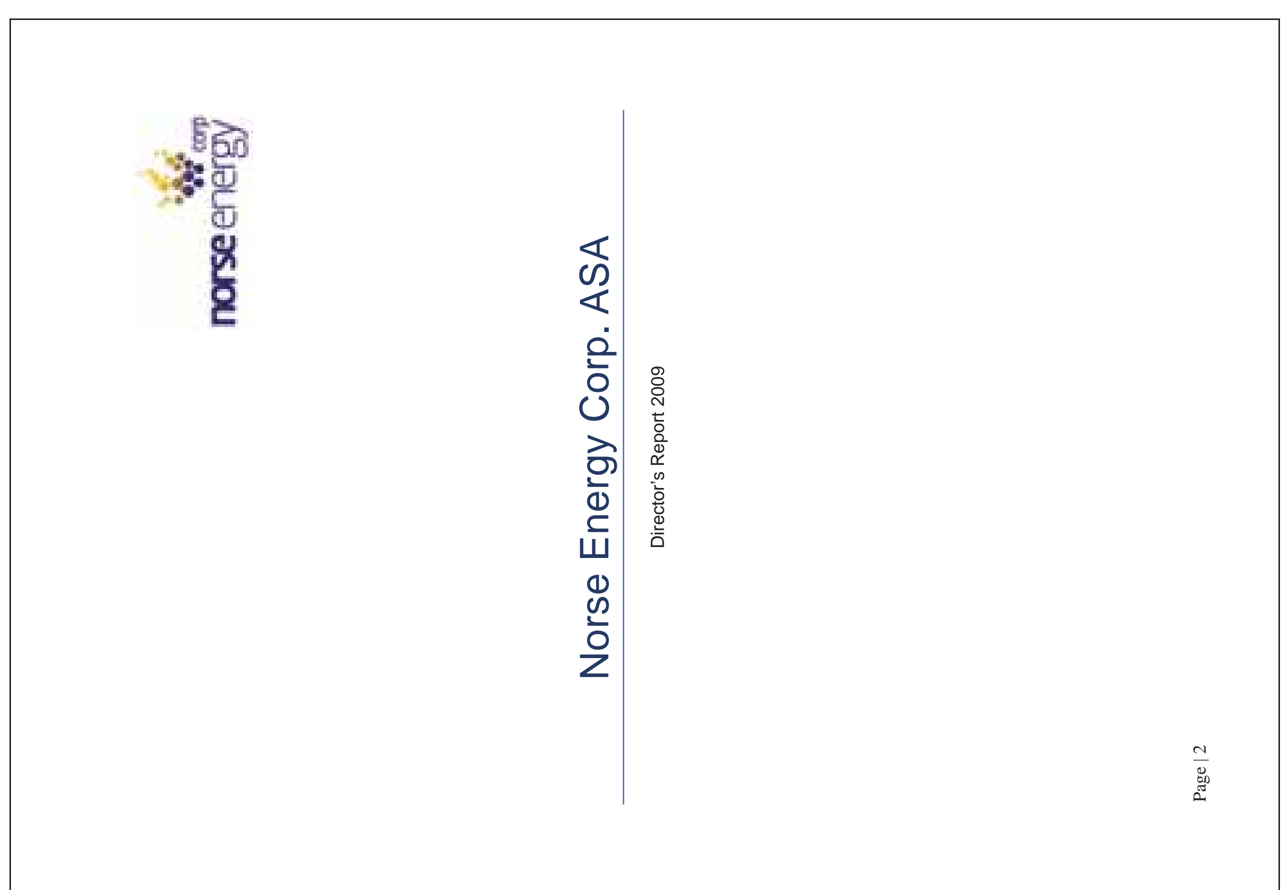
Contact information

For further information, please contact:

Anders Kapstad, CFO
Panoro Energy ASA
anders.kapstad@panoroenergy.com
Mobile: +47 918 17 442

Jonas Gamre, Investor Relations
Panoro Energy ASA
jonas.gamre@panoroenergy.com
Mobile: +47 971 18 292

APPENDIX 3: NORSE ENERGY CORP. ASA ANNUAL REPORT 2009

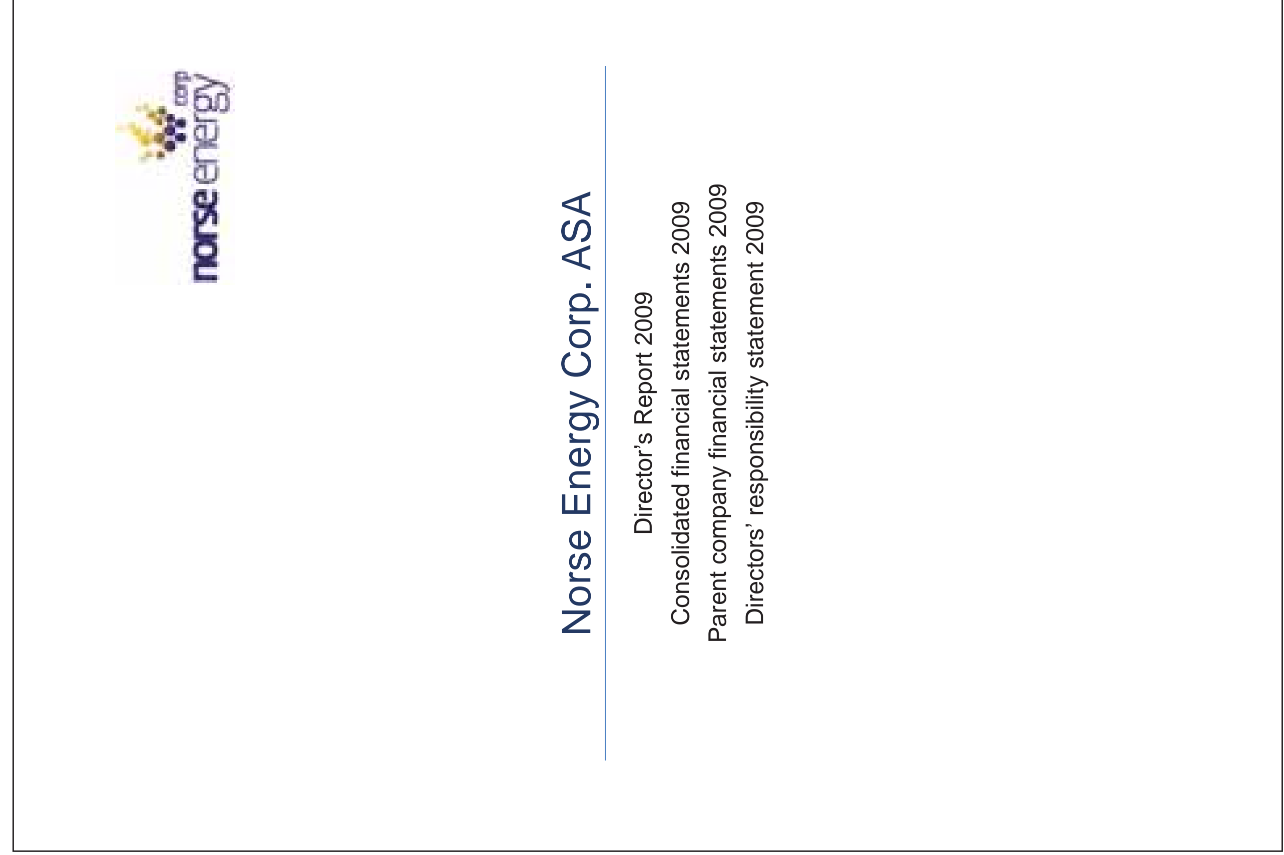


norse energy corp

Norse Energy Corp. ASA

Director's Report 2009

Page | 2



norse energy corp

Norse Energy Corp. ASA

Director's Report 2009
Consolidated financial statements 2009
Parent company financial statements 2009
Directors' responsibility statement 2009

Norse Energy Corp. ASA ("Norse Energy" or "the Company") became a public company five years ago. During 2009, the Company capitalized further on its local presence in two of the most promising energy regions in the world, offshore Brazil and onshore USA.

2009 has been an eventful year with particular emphasis on the strategic development of the Company. The Company's two operating units onshore US and offshore Brazil both offer great growth opportunities and value creation potential but provide limited synergies and are considered to be too small in their current markets. In order to exploit the full potential, the Company towards the end of 2009 initiated a process to demerge the Company. This was approved by an Extraordinary General Meeting held in January 2010 and is expected to become effective in Q2 2010. Norse Energy Corp. ASA will thus become a pure-play independent focusing on unconventional resources in North America, whereas an application has been filed for a separate listing of the Brazilian entity with focus on the South Atlantic region.

Norse Energy was listed on the Oslo Stock Exchange (OSE) on July 13, 2005 under the ticker symbol "NEC". The corporate headquarters are located in Oslo. The Company's business activities comprise exploration, production, transportation and marketing of oil and natural gas in two of the most promising energy regions in the world. Operations in Brazil are managed out of Rio de Janeiro, whereas the Company in the US has its main offices in Buffalo and Pittsburgh in close proximity to the main assets in the Appalachian Basin.

Operational Description

Brazil Division

The Company currently participates in petroleum exploration and production via its Brazilian subsidiaries Norse Energy do Brasil S.A, Coplex Petroleo do Brazil Ltda. ("Coplex") and Rio das Contas Produtora de Petroleo Ltda. ("Rio das Contas"). The Company is active in two geological basins with a total of eight licenses: two in the Camamu-Almada basin offshore in the state of Bahia and six offshore licenses in the Santos basin.

In the Camamu-Almada basin, the Company participates with a 10% net interest in the producing Manati gas field. The field has been in production since 2007 and average production in 2009 was 3,267 BOE (~18,300 Mcf) per day (net to the Company's 10% interest). The Company also holds a 10% interest in the Camarão Norte discovery (part of BCAM-40). This field was discovered in 2001, and is located 9 km south of the Manati field with extensions to the south into the BM-CAL-4 block which is 100% owned by El Paso. In addition, the Company holds a 20% interest in the Sardinha field. This field is located 50 km south of the Manati gas field and was defined by 11 exploration wells supported with 2D and 3D seismic prior to the Company's acquisition of the field. Economic feasibility studies have been conducted by the operator to analyze the optimal development of the field, and the partners continue to evaluate conceptual solutions for a development.

In the Santos basin, the Company participates in the development of the BS-3 Integrated Project, which includes 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 and its partners are currently working to optimize the field development plan for the BS-3 area. In addition, the Company was the successful bidder for three offshore blocks in the 9th ANP Bid Round – the S-M 1035, S-M 1036 and S-M 1100 (50% interest in all blocks). The Company is the operator of these fields, and a 3D seismic acquisition covering the 725 square kilometers area has been concluded. Results are currently being analyzed and interpreted, and the Company expects to announce its development strategy for the licenses later in 2010.

On March 15, 2010, Norse Energy announced its intention to form a South Atlantic oil and gas independent by merging its Brazilian assets with Pan Petroleum, an oil company focusing on assets in West-Africa. The transaction is expected to be concluded during the first half of 2010, and the new combined Company seeks a separate listing on the Oslo Stock Exchange.

US Division

The Company has three business segments in the US:

- Exploration and Production of natural gas ("E&P")
- Gathering and Transmission of natural gas ("G&T")
- Energy Marketing ("EM")

Exploration and Production (E&P): The E&P business segment, Norse Energy Corp. USA, produces natural gas with operations principally in central New York in the Herkimer, Utica and Marcellus formations, as well as acreage holdings in western New York. The Company holds land leases for approximately 180,000 acres, of which approximately 130,000 acres are located in central New York. The land, geological and geophysical activities are run out of offices in Buffalo, NY.

The revenues in this business segment are derived from the sale of natural gas to customers in the North East US. Included with this subsidiary are 67 miles of midstream gathering pipeline to enable gas transport from the wells into three major interstate pipelines and a regional power network.

Gathering and Transmission (G&T)*:* The G&T business comprises the operations of Norse Pipeline, LLC and Nornew Energy Supply. Together these entities own and operate a 348 mile gathering and transmission system. Norse Pipeline, LLC consists of about 320 miles of high pressure steel pipeline capable of gathering natural gas from more than 6,500 gas wells located in western New York and northwestern Pennsylvania. The gathering system has delivery points into major interstate pipelines, as well as to local end users. Nornew Energy Supply comprises a 28 mile gathering system with a utility contract that expires in 2020.

The revenues in this business segment are derived from the transportation and sale of retained natural gas to end-users in North East US. Sales are accounted for on a gross basis and will thus fluctuate with market prices.

Energy Marketing (EM)*:* The EM business segment is made up of Mid American Natural Resources, a well established energy marketing and trading company in the Appalachian region. The focus of the EM subsidiary is to add value to the Company's business by attracting gas flow to its proprietary pipelines and by optimizing the value of Norse Energy's gas production and that of other local Appalachian producers. The EM business offers a full range of services to the natural gas producers, commercial and industrial consumers, and pipeline companies from the Ohio Valley to the East Coast of the US.

The revenues in this business segment are mainly derived from the purchase and sale of natural gas in the North East US. Sales are accounted for on a gross basis. As a result, the revenues will fluctuate with changes in natural gas pricing.

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 premise of 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 2009, and the Company's financial position is considered to be sound. The consolidated accounts are presented in US dollars.

Financial Performance and Activities

2009 was a year impacted by the historical events of the global financial crises. With the gradual restoration of world financial markets during 2009, Norse Energy also progressively returned to financial stability. Profitability was mainly impacted by the remains of the exploration drilling program in Brazil and the abandonment of the oil producing field in Brazil, Coral. However, with the secured long-

term cash flow from both Brazil and the US, the Company was able to maneuver through the troubled waters.

2009 stands out as a year of financial restructuring as the Company's capital structure was significantly strengthened through debt restructuring, subject to certain conditions precedent, and with equity additions. Norse Energy negotiated improved terms for its USD 155 million corporate bond debt as well as for the USD 80 million of commercial bank debt in Brazil. The restructuring of debt improves not only liquidity but will also provide the Company with more time to capitalize on its huge resource base. Additionally, the bond restructuring will facilitate for the contemplated demerger as bond debt will be split between the US and Brazilian entities.

The Company also strengthens its equity base significant through several capitalization processes. In the second quarter 2009, the Company completed a sale of 30% of its Brazilian subsidiary to Sector Asset Management for a USD 30 million consideration. In September 2009, the Company completed a 10% share issue directed at Norwegian and foreign institutional investors raising additional USD 23 million. In early 2010, the Company has raised additional USD 56 million in share issues. Hence, the financial solidity of the Company has greatly improved throughout the year.

Condensed Consolidated Income Statement

in USD thousands	2009	2008	Change
Total revenues	**149 435**	**334 508**	**-55 %**
Operating expenses			
Trading purchase of natural gas	-91 269	-206 500	-56 %
Production costs	-5 960	-27 949	-79 %
Exploration and dry hole costs	-18 853	-27 225	-31 %
Depreciation	-18 770	-16 719	12 %
Impairment	-15 311	-25 911	-41 %
General and administrative expenses	-25 936	-31 605	-18 %
Total operating expenses	**-176 099**	**-335 909**	**-48 %**
Operating loss	**-26 664**	**-1 401**	**1803 %**
Net financial items	-680	-10 229	-93 %
Loss before taxes	**-27 344**	**-11 630**	**135 %**
Income tax expense	5 036	1 090	362 %
Net loss	**-22 308**	**-10 540**	**112 %**

In 2009, total revenue was USD 149.4 million, down from USD 334.5 million in the previous year. The decline reflects that a significant portion of sales revenue relates to Norse Energy's Marketing division in the US, where oil and gas trading revenue and other income declined to USD 96.3 million in 2009 from USD 216.5 million in 2008. In accordance with IFRS, revenues from the Marketing division are booked on a gross basis, and these fluctuate considerably with both gas volumes and changes in gas prices. However, the main cost component for the EM division is gas purchases, which decreased in line with the EM revenues.

Brazil E&P accounted for USD 34.7 million of revenue in 2009 (73.6 in 2008) and USA E&P for USD 15.3 million (40.9 in 2008). The remainder was derived from the gathering and transmission and energy marketing activities.

Group production of oil and gas amounted to 4,217 BOE/day in 2009, down from 4,840 BOE/day in 2008. The decline mainly reflects the abandonment of Coral oil field, but also lower gas production and sales from the Manati field due to low regional demand in the early part of the year. In the US, gas production sales increased from 417 BOE/day to 1,075 BOE/day.

Production costs decreased sharply to USD 6.0 million in 2009, compared to USD 27.9 million in 2008. The main reason was the abandonment of Coral and the lower volumes from oil production in Brazil.

Exploration and dry hole costs totaled USD 18.9 million for the year, which is approximately 31% lower than in the previous year. Depreciation increased to USD 18.8 million from USD 16.7 million in 2008. This increase is mainly related to the US E&P segment and partially offset by a reduction relating to the Manati field in Brazil. An impairment charge of USD 15.3 million was booked in 2009 compared to USD 25.9 million in 2008. The impairment for 2009 mainly relates to the relinquishment of the BCAM-40 exploration license.

As activity and number of employees were lower in 2009 than the previous year, general and administrative expenses decreased from USD 31.6 million in 2008 to USD 25.9 million in 2009.

Operating loss for 2009 was USD 26.7 million, compared to an operating loss of USD 1.4 million in 2008. This mainly reflects that the figures in 2008 were positively affected by a divestment gain, and also lower natural gas sales in Brazil in 2009.

Brazil E&P reported an EBITDA of USD 9.2 million in 2009 (19.8 in 2008) and USA E&P reported an EBITDA of USD 3.4 million (25.9 in 2008), with the remainder derived from the gathering and transmission activities, energy marketing and corporate overhead and eliminations.

Cash flows from operating activities were USD 10.3 million in 2009, compared to USD 5.9 million in 2008.

Net financial items were negative USD 0.7 million in 2009, compared with a negative USD 10.2 million in 2008. The change was mainly attributable to a net foreign exchange gain of USD 24.6 million in 2009, compared with USD 5.8 million in 2008.

The Company has assets and liabilities denominated in both Norwegian Kroner and Brazilian Reais, and gains or losses are recognized as these currencies fluctuate versus the US dollar. During 2006, Norse Energy entered into two loans with detachable warrants. The warrants are separately listed on the OSE under ticker code NEC-J, and the fair value of the warrants is estimated at each reporting date with any change in the fair value being recorded in the income statement. The warrant effect was a positive USD 0.7 million, compared with a positive USD 8.1 million the previous year.

Net interest costs amounted to USD 25.8 million in 2009 compared to costs of USD 23.8 million in 2008. For further details on the Company's financial instruments and transactions, refer to note 12 in the consolidated financial statements.

Income tax benefit for 2009 was USD 5.0 million compared to a benefit of USD 1.1 million in 2008. The income tax benefit mainly reflects the recognition of previously unrecognized tax loss carry forwards.

Net loss for 2009 was thus USD 22.3 million, compared to a net loss of USD 10.5 million in 2008. Including exchange differences arising from translation of foreign operations and other comprehensive income, the total comprehensive income amounted to a negative USD 1.5 million for 2009, compared to a negative USD 16.6 million for 2008.

A negative USD 0.1 million was attributable to shareholders of the parent company and a negative USD 1.4 million to non-controlling interests in 2009, whereas the negative USD 16.6 million in its entirety was attributable to the shareholders of the parent company in 2008.

Norse Energy's total assets increased USD 71.6 million to USD 469.7 million in 2009, which mainly reflects an increase in production assets and equipment in Brazil.

Brazil E&P accounted for USD 292.9 million of total assets (228.9 in 2008) and USA E&P for USD 118.8 million (99.9 in 2008), with the remainder in the gathering and transmission activities, energy and marketing and corporate overhead and eliminations.

Total current assets declined by approximately USD 4.7 million to USD 74.9 million, although cash and cash equivalents increased by approximately USD 5.1 million to USD 37.3 million.

Long-term liabilities were reduced by USD 54.4 million to USD 128.3 million, with the decline mainly attributable to the reclassification of certain bond loans to current liabilities as their maturity dates are in 2010. Short-term liabilities increased by USD 74.7 million to USD 222.3 million, primarily due to the reason mentioned above. Please see a further discussion under "Funding" below.

Equity increased by USD 51.3 million to USD 119.0 million in 2009, and the book equity ratio increased to 25.3% from 17.0% at the end of 2008. In the first quarter 2010, the Company carried out a private placement of NOK 300 million and a subsequent repair issue of NOK 38.6 million to improve the financial flexibility of the Company, and the Board of Directors is comfortable with the solidity of the Company.

Coverage of Loss in Norse Energy Corp. ASA

The Board of Directors proposes that the loss for the year of NOK 111.6 million in the parent company is transferred to other equity. As of December 31, 2009 the Company has NOK 302.6 million in unrestricted equity.

Funding

The Company obtains its sources of funding from a mix of equity, bank debt, bonds and sale/farm-out of assets. In the second quarter of 2009, the Company sold a 30% minority share in the subsidiary Norse Energy do Brasil to funds managed by Sector Asset Management, the Company's largest shareholder, for a consideration of USD 30 million. This sale improved the Company's balance sheet and provided improved financial flexibility both for the Company and its Brazilian subsidiary.

The bondholder approved a restructuring in December 2009 that provides the Company time to capitalize properly on its huge resource base. The average 1–2 year postponement of principal repayments will provide the bondholders with additional security. In addition to the postponement of principal repayment, the restructuring also entails a step-up in interest coupon and the issuance of associated warrants.

Following this bond restructuring, the Company will have bond loans of approximately USD 155 million (at USD/NOK = 5.90), of which 15% will be paid as early redemption to bondholders. After prepayment, bond debt pledged to the US will be approximately USD 90.2 million and bond debt pledged to the Brazilian entity will be approximately USD 41.3 million. The bond restructuring is subject to certain conditions precedent and must be completed prior to June 30, 2010 in order to take effect. For further details on these conditions precedent, refer to the proposed amendment documents for each bond loan, available on www.NorseEnergy.com.

In the US, the Company utilizes reserve based lending to fund the ongoing drilling program. At the end of 2009, the credit line was USD 21.75 million, classified as current debt. The US revolving credit is based upon eligible reserves that are required to be redetermined twice a year.

On January 11, 2010, Norse Energy completed a private placement for a total of 70,588,235 new shares at NOK 4.25 per share, directed towards Norwegian and international institutional investors. Coupled with the recent bond restructuring, the NOK 300 million share issue and the NOK 38.6 million repair issue provide the Company with a strong financial position from which to implement its growth strategy.

For further details on the Company's bond loans and funding, refer to note 17 in the consolidated financial statements.

Risk Factors

The Company is committed to deliver its performance through safe and reliable operations. During 2009 Norse Energy continued the process of improving the safety management system. A corporate safety committee is now meeting monthly and continuously monitors the safety performance.

There are certain inherent risk and uncertainties in investing in the Company. The main financial risks are related to gas prices in the US, currency rates, interest rates and compliance with debt covenants.

During the 2009, the Company has seen fluctuating oil and gas prices and large fluctuations in currency rates.

The following are the key risk parameters and for more details see note 12.

Operational risks
Operational risks are dependent on the continued performance of the Company's operational assets.
Future production of crude oil and natural gas is dependent on the Company's ability to find, or acquire and develop reserves and resources. Environmental, geological and infrastructural conditions are often challenging and as a consequence costs can be higher than originally estimated.

The development of oil and gas fields in which the Company is involved is associated with technical risk, alignment in the consortium when it comes to the 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 operational risk related to exploration success and development of industry cost.

The Company is exposed to fluctuations in the prices for oil and natural gas. To mitigate this risk in Brazil, the Company has entered into a long-term take-or-pay contract with Petrobras for the sale of natural gas from the Manati field.

In the US, the Company utilizes natural gas futures to hedge certain exposures to market price fluctuations on its anticipated sales. The Company has entered into fixed price contracts for physical delivery of gas, as well as forward contracts for a portion of production. The Company's current production is based on its continued successful development of the emerging Herkimer play which continues to carry exploration risk.

Financing and liquidity risks
Liquidity risks arise from not having the necessary resources available to meet maturing liabilities with regard to timing, volume and currency structure.

Based on Norse Energy's proposed refinancing to be carried out in 2010, its current available credit lines and business model, the Company regards the probability of financing and liquidity risks, which could also lead to increased interest costs, as low. Nevertheless, it is important to note that failure to maintain liquidity could have a financial impact on the Company's performance.

In the US, the Company is required to maintain a defined working capital ratio, minimum net worth, a ratio of general and administrative expenses to net revenues, senior debt to EBITDA, and other non-financial covenants related to its reserve base lending. At December 31, 2009, the Company was not in compliance with the working-capital ratio, the general administrative expenses to net revenues, and the senior debt to EBITDA covenant. Although in violation of the working capital ratio at December 31, 2009, management has cured this covenant with a cash contribution from Norse Energy Corp. ASA. The general and administrative expense to net revenues issue arose from the sale of the Medina assets and the building of resources by retaining staff to capitalize on the Company's drilling opportunities and take full advantage of the opportunities available with its existing acreage position. The senior debt to EBITDA ratio rose above the required ratio as Q4 EBITDA declined due to lower production in the quarter. The Company has communicated its position with its bank and has received waivers from the lender on a quarterly basis.

In connection with the Brazilian debt restructuring, a waiver for non-compliance with the debt covenants in 2009 is issued, but will be effectuated once the demerger is completed.

The bond restructuring is subject to certain conditions precedent and must be completed prior to June 30, 2010 in order to take effect. For further details on these conditions precedent, refer to the proposed amendment documents for each bond loan, available on www.NorseEnergy.com.

Financial risk management is performed at a local level and by the group finance and accounting function. The risk management efforts seek to minimize the potential adverse effects on the Company's financial performance. For details on how the Company manages the various financial

risks, refer to note 22 of the consolidated financial statements the Annual Report 2009. The Company utilizes derivative financial instruments such as currency swaps, cash flow hedging of gas production and fixed price contracts to hedge against financial risk exposures. For details on these financial instruments, refer to note 12 of the consolidated financial statements in the Annual Report 2009.

Currency risks
Currency risks for Norse Energy are a direct result of multi-currency cash flows within the Company. The biggest single driver behind this risk results from the mismatch of the currencies required for funding exploration and development initiatives versus the denominations of a large part of the Company's funding sources.

Interest risks
The Company is exposed to interest rate risk as entities in the group borrow money at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings and by using interest rate currency swap contracts.

Corporate Governance

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

The Board acknowledges the Norwegian Code of Practice for Corporate Governance of October 21, 2009 and the principle of comply or explain. Norse Energy has implemented the Code and will use its guidelines as the basis for the Board's governance duties. A summary of the corporate governance policy is incorporated in a separate section of this report and a lengthier version of the policy is posted on the Company's website at www.NorseEnergy.com.

Discrimination and Equal Employment Opportunities

Norse Energy is an equal opportunity employer, and integrates an equality concept into its human resources policies. All employees are governed by Norse Energy's codes of ethics and operations to ensure uniformity within its workforce. At Norse Energy, a diversified working environment is embraced, valuing and respecting individual abilities and differences. Employees are remunerated based upon skill level, performance and position within the Company. Norse Energy is a knowledge-based company in which a majority of the workforce has earned a college or university level education, or has obtained industry-recognized skills and qualifications specific to their job requirements. Norse Energy supports its employees in continuing development of their skills through ongoing education that furthers Norse Energy's goals of being at the forefront of efficient and innovative industry practices.

During 2009, Norse Energy expanded its workforce in response to the Company's continued operational growth and to support future growth The Company employed 101 persons at the end of 2009, whereof 4 in Norway, 11 in Brazil, 85 in the US, and 1 in Canada, 63 % were men and 37 % were women. There are currently no women in Norse Energy's senior management. Overall workforce turnover is relatively low.

Health, Safety and the Environment (HSE)

In order for Norse Energy to meet its goals, the Company maintains high standards in its work environment, whether in the office or in the field. The safety of the Company's employees is of the highest priority, thus focus is on continuing to maintain and improve its work environment and to be flexible with implementing new procedures to ensure consistency in safety results as conditions change. This is especially critical during the temperature extremes of the US operations, as weather is frequently a factor in adhering to safety parameters. Norse Energy's primary goal is to observe all

health, safety and environmental regulatory requirements, and to conduct its operations in such a way that it does not harm people or the environment.

The Company's activities in Norway do not pollute the environment. In Brazil, the Company's 2009 operations were all conducted in licenses where the operator carries the physical responsibilities of operating at acceptable HSE standards on behalf of the licensees. To the Company's satisfaction, no accidents resulting in loss of human lives or damages to individuals or property have been noted. Furthermore, to the Company's knowledge, all the operations where the Company was involved have been conducted within limits set by approved environmental regulatory authorities.

In the US, where the Company operates nearly all of its oil and gas properties, Norse Energy follows strict environmental and safety policies in accordance with US federal and state regulatory requirements governing such exploration and production activities. During 2009, the Company complied with federal, state and local level regulations regarding workers' health, safety and the environment.

The US E&P and G&T divisions employed an expert with specific experience in safety matters to further improve the Company's policies. These divisions conduct annual Occupational Safety and Health Administration (OSHA) training, safety meetings and have established written safety procedures.

Company time lost due to employee illness or accident was less than one percent during both 2009 and 2008, and considerably lower than industry standards in our categories. It is the Company's policy to always work towards identifying and employing technical solutions that ensure safe and efficient operations. This policy has been pursued during 2009 for all identified development projects.

The working environment in the Company is considered good, characterized by an entrepreneurial spirit where constructive ideas and initiatives are welcome, and trust between employees and management is solid.

Directors and Shareholders

According to its articles of association, the Company must have a minimum of five and a maximum of eight directors on its Board. The current number of Board members is five, all non-executive directors. Two Board members are female. The members have varied backgrounds and experience which offer the Company valuable perspectives. The Board held 18 meetings during the year.

Outlook

The demerger of the Company will create two distinct business cases, each operating in two highly attractive areas and both positioned to take advantage of substantial growth opportunities. The Company aims to list the Brazilian entity on the Oslo Stock Exchange during the second quarter of 2010.

In the US, the Company reached its 2009 production target of 12,000 Mcf (2,137 BOE) per day at year end but was unable to sustain this level into Q1-10 due to unexpected water influx on some of our Herkimer wells. As production now appears to have stabilized at around 7,800 Mcf (1,389 BOE) per day, we are shooting a 3D seismic survey covering 38,000 acres to further support and understand the optimal geological setting both for our Herkimer play and future anticipated shale opportunities in the Marcellus and Utica shales. As the New York Department of Environmental Conservation moves toward implementation of the Supplemental Generic Environmental Impact Statement, the SGEIS, the Company is preparing for commencement of commercial development of its large shale resource potential. Based on current projections, the Company continues to anticipate achieving the 2010 production goal of 24,000 Mcf (4,275 BOE) per day by year's end.

In Brazil, the Company is working on securing a gas sales agreement for Manati volumes exceeding the current take-or-pay agreement. Along with the finalization of our 3D seismic interpretation and analysis on the Company's three operated blocks in the Santos Basin, Norse Energy continues to work towards a commercialization of its proven reserves and contingent resources for the BS-3 Integrated project in Southern Santos.

We wish all the best going forward as shareholders in two publicly listed companies as we separate our US and Brazilian businesses.

The Board of Directors

Oslo, April 29, 2010

Norse Energy Corp. ASA

Dag Erik Rasmussen Styreformann	Bjarte Bruheim Styremedlem	Katherine H. Støvring Styremedlem
Odd Næss Styremedlem	Kathleen Arthur Styremedlem	Øivind Risberg Administrerende direktør

norse energy corp

Norse Energy Corp. ASA

Consolidated financial statements
2009

Consolidated statement of comprehensive income

in USD thousands, execept earnings per share	Note	2009	2008	2007
Total revenues	6	**149 435**	**334 508**	**214 711**
Trading purchase of natural gas		-91 269	-206 500	-141 588
Production costs		-5 960	-27 949	-25 802
Exploration and dry hole cost		-18 853	-27 225	-2 629
Depreciation	6,10,11	-18 770	-16 719	-28 901
Impairment	10,11	-15 311	-25 911	-26 159
General and administrative expenses	6,7	-25 936	-31 605	-17 870
Total operating expenses		**-176 099**	**-335 909**	**-242 949**
Operating loss		**-26 664**	**-1 401**	**-28 237**
Interest income	6	3 450	5 190	4 002
Interest expense	6	-29 259	-28 961	-20 064
Net foreign exchange gain	6	24 649	5 828	4 146
Other financial items	4,6	480	7 714	3 711
Net financial items		**-680**	**-10 229**	**-8 205**
Loss before taxes		**-27 344**	**-11 630**	**-36 442**
Income tax	8	5 036	1 090	7 737
Net loss	6	**-22 308**	**-10 540**	**-28 705**
Exchange differences arising from translation of foreign operations		20 620	-6 089	7 458
Other comprehensive income		181	26	-564
Other comprehensive income / -loss		**20 801**	**-6 063**	**6 894**
Total comprehensive income / -loss		**-1 507**	**-16 603**	**-21 811**
Net loss attributable to:				
Shareholders of the parent company		-18 476	-10 540	-28 705
Non-controlling interests		-3 832	-	-
Total		-22 308	-10 540	-28 705
Total comprehensive loss attributable to:				
Shareholders of the parent company		-69	-16 603	-21 811
Non-controlling interests		-1 438	-	-
Total		-1 507	-16 603	-21 811
Basic and diluted earnings per share	9	-0,05	-0,03	-0,08

Consolidated statement of financial position

in USD thousands	Note	2009	2008
ASSETS			
Non-current assets			
Intangible assets			
License interests and exploration assets	10	148 984	132 386
Goodwill and other intangible assets	11	5 719	5 755
Deferred tax assets	8	22 564	10 105
Total intangible assets		**177 267**	**148 246**
Properties and field investments			
Field investment and equipment	10	205 140	150 218
Other fixed assets	10	5 680	6 252
Total properties and field investments		**210 820**	**156 470**
Investment in equity accounted investees		-	1 852
Other non-current assets	12	6 666	11 911
Total non-current assets		**394 753**	**318 479**
Current assets			
Inventory	14	-	290
Accounts receivable and other short-term assets	12	37 628	47 102
Cash and cash equivalents	12,15	37 303	32 207
Total current assets		**74 931**	**79 599**
TOTAL ASSETS		**469 684**	**398 078**

Consolidated statement of financial position

in USD thousands	Note	2009	2008
EQUITY AND LIABILITIES			
Equity			
Share capital	14	49 007	43 614
Share premium	14	17 627	261
Treasury shares		-14	-14
Other paid in capital		76 983	76 983
Total paid-in equity		**143 603**	**120 844**
Other equity		-54 650	-53 095
Total equity attributable to shareholders of the parent		**88 953**	**67 749**
Non-controlling interests	25	30 084	-
Total equity		**119 037**	**67 749**
Non-current liabilities			
Long-term interest-bearing debt	17	94 750	145 360
Deferred tax liabilities	8	223	11 788
Asset retirement obligations	18	13 172	4 874
Other long-term liabilities	12	20 203	20 681
Total non-current liabilities		**128 348**	**182 703**
Current liabilities			
Asset retirement obligation	18	-	10 950
Accounts payable	12	30 989	26 563
Short-term interest-bearing debt	17	158 160	84 007
Other current liabilities	12	33 150	26 106
Total current liabilities		**222 299**	**147 626**
TOTAL EQUITY AND LIABILITIES		**469 684**	**398 078**

Oslo, April 29, 2010

Dag Erik Rasmussen Chairman	Bjarte Bruheim Board member	Katherine H. Støvring Board member
Odd Næss Board member	Kathleen Arthur Board member	Øivind Risberg Chief Executive Officer

Consolidated statement of changes in equity

in USD thousands	Note	Share capital	Share premium reserve	Treasury shares	Other paid in capital	Retained earnings	Other Equity	Attributable to parent shareholders	Non-controlling interests	Total
At January 1, 2008		43 526	76 983	-14	-	-45 604	8 532	83 423		83 423
Net loss for the year	6	-	-	-	-	-10 540	-	-10 540	-	-10 540
Other comprehensive income for the year:		-								
Net value gain on cash flow hedges		-	-	-	-	-	26	26	-	26
Currency translation and other adjustments		-	-	-	-	-	-6 089	-6 089	-	-6 089
Total comprehensive income for the year		-	-	-	-	-10 540	-6 063	-16 603	-	-16 603
Share premium reserve reduction (1)	16	-	-76 983	-	76 983	-	-	-	-	-
Share issue	16	88	261	-	-	-	-	349	-	349
Employee share options	13	-	-	-	-	-	580	580	-	580
At December 31, 2008		43 614	261	-14	76 983	-56 144	3 049	67 749	-	67 749
At January 1, 2009		43 614	261	-14	76 983	-56 144	3 049	67 749	-	67 749
Net loss for the year	6	-	-	-	-	-18 476	-	-18 476	-3 832	-22 308
Other comprehensive income for the year:		-								
Currency translation and other adjustments		-	-	-	-	-	18 226	18 226	2 394	20 620
Other comprehensive income		-	-	-	-	-	181	181		181
Total comprehensive income for the year		-	-	-	-	-18 476	18 407	-69	-1 438	-1 507
Share issue	16	5 393	17 366	-	-	-	-	22 759		22 759
Sale of non-controlling interest (2)		-	-	-	-	-	-1 522	-1 522	31 522	30 000
Employee share options	13	-	-	-	-	-	36	36	-	36
Currency translation and other adjustments		-	-	-	-	-		-		-
At December 31, 2009		49 007	17 627	-14	76 983	-74 620	19 970	88 953	30 084	119 037

(1) The reduction in share premium approved at the Annual General meeting held in May 2008, was registered with the Register of Business Enterprises in April 2009.

(2) The non-controlling interests that arose in the second quarter of 2009 was recognized as an equity transaction, in which the difference between the fair value of the consideration received and the net carrying value of the non-controlling interests sold is recognized as equity attributable to the shareholders of the parent company.

Consolidated statement of cash flow

in USD thousands	Note	2009	2008
Cash flows from operating activities			
Net loss	4	-22 308	-10 540
Adjustments to reconcile net profit / (-) loss to cash flows from operating activities:			
Depreciation	10,11	18 770	16 719
Impairment and non-cash items of dry-hole & exploration	4	23 790	16 600
Market adjustments, warrants, options and shares	12	-30 015	-27 158
Other non-cash items			41 176
Gain on disposal of properties and field investments		-1 547	-27 981
Interest income	6	-3 450	-5 190
Interest expense	6	29 259	28 934
Share of loss from associates	6	99	58
Movements in working capital:			
Change in accounts receivable and other short-term assets		9 733	-6 621
Change in accounts payable		717	-22 047
Change in other assets and liabilities		-14 752	1 974
Net cash flows from operating activities		**10 296**	**5 924**
Cash flows from investing activities			
Proceeds from sale of acquired assets		1 949	66 652
Investment in shares		-	-446
Interest received		168	9 023
Payments for properties and field investments	10	-46 660	-71 969
Investment in other assets		-	-2 313
Net cash flows from investing activities		**-44 543**	**947**
Cash flows from financing activities			
Proceeds from issuance of shares, net	16	22 759	349
Proceeds from sale of non-controlling interests	4	30 000	-
Proceeds from long-term interest-bearing debt	17	2 409	50 796
Proceeds from short-term interest-bearing debt	17	19 082	42 061
Interest paid		-19 402	-22 697
Repayment of interest-bearing debt	17	-20 098	-101 969
Proceed from settlement of derivatives	12	-	14 853
Net cash flows from financing activities		**34 750**	**-16 607**
Effect of foreign currency translation adjustment on cash balances		**4 593**	**-1 804**
Change in cash and cash equivalents during the period		**5 096**	**-11 540**
Cash and cash equivalents at beginning of the period	15	**32 207**	**43 747**
Cash and cash equivalents at the end of the period	15	**37 303**	**32 207**

Note 1. Corporate information

Norse Energy Corp. ASA is a public limited liability company incorporated and domiciled in Norway. The address of the main office is Dronning Maudsgt. 1-3, 0124 Oslo, Norway. The consolidated financial statements for the year ended December 31, 2009, were approved by the Board of Directors on April 29, 2010. The principal activity of Norse Energy Corp. ASA and its subsidiaries is the acquisition, exploration and development of oil and natural gas properties in the US and Brazil.

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

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

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

The revised version of IFRS 3 Business Combinations, issued in January 2008, covers definition, identification, accounting for and disclosure of business combinations, inclusive of business combinations achieved in stages. It will be applicable to business combinations occurring in annual periods beginning on or after July 1, 2009. Norse Energy is still determining the potential impact of this standard upon adoption of the revised standard on January 1, 2010.

The amended version of IAS 27 Consolidated and Separate Financial Statements, issued in January 2008, primarily covers amendments related to accounting for non-controlling interests and the loss of control of a subsidiary, and is effective for annual periods beginning on or after July 1, 2009. There is not expected to be any material effect on Norse Energy's reported net income or equity on adoption of the amendment on January 1, 2010.

The Improvements to IFRS 2009, issued in April 2009, include amendments effective for accounting periods beginning on or after July 1, 2009, or January 1, 2010, respectively, depending on the standard involved, and include amendments to a number of accounting standards. None of the amendments are expected to significantly impact Norse Energy's net profit, equity or classifications in the balance sheet or statement of income.

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

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

The amendment to IAS 32 Classification of Rights Issues, issued in November 2009, and effective from accounting periods beginning February 1, 2010 or later, the amendment to IFRS 2 Group Cash-settled Share-based Payment Transactions issued in July 2009 and effective from January 1, 2010, and IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments issued in November 2009 and effective for annual periods beginning on or after July 1, 2010. Norse Energy is still evaluating the potential impact.

Standards affecting presentation and disclosure

IAS 1(2007), effective from January 1, 2009, has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

Improving Disclosures about Financial Instruments (Amendments to IFRS 7 Financial Instruments: Disclosures). The amendments to IFRS 7 expand the disclosures required in respect of fair value measurements and liquidity risk. The Group has elected not to provide comparative information for these expanded disclosures in the current year in accordance with the transitional reliefs offered in these amendments.

Note 3. Summary of significant accounting policies

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

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

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

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

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

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

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

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

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

In the consolidated financial statements, the assets and liabilities of non-USD functional currency subsidiaries, including related goodwill, are translated into USD at the rate of exchange ruling at the balance sheet date. The results and cash flows of non-USD functional currency subsidiaries are

translated into USD using applicable average rates as an approximation for the exchange rates prevailing at the dates of the different transactions. Foreign exchange adjustments arising when the opening net assets and the profits for the year retained by non-USD functional currency subsidiaries are translated into USD are taken to a separate component of equity.

The foreign exchange rates applied were:

	2009		2008	
	Average rate	Reporting date rate	Average rate	Reporting date rate
Norw egian Kroner/USD	6,3227	5,7767	5,6361	6,9989
Brazilian Real/USD	2,0249	1,7412	1,8375	2,3370

Change in functional currency in Brazil
After the production from the Coral field ceased in the fourth quarter 2008, the company's subsidiaries Norse Energy do Brasil ("NEdB") and Coplex Petroleo do Brasil ("Coplex") no longer have revenues denominated in US dollar. Costs for these entities are mainly denominated in Brazilian Reais. It is NEC management's view that going forward; Reais will be the currency of the primary economical environment in which NEdB and Coplex operate.

Following this development, it was deemed necessary to change the functional currency of these two subsidiaries from US dollar to Brazilian Reais. The company's subsidiary Rio das Contas, with its 10% Manati ownership, remains a Reais functional currency entity. In accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates*, the change of functional currency is accounted for prospectively. All items are translated into the new functional currency using the exchange rate at the date of the change (January 1, 2009). For non-monetary items, the resulting translated amounts are carried at their historical cost.

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

Associates are accounted for using the equity method and are initially recognized at cost. As a result, the consolidated financial statements includes the entity's share of the income and expenses and equity movements of the investee, after adjustments to align the accounting principles of the investee to those of the Group, from the date that significant influence commences until the date such influence ceases. When the company's share of losses exceeds the interest in the investee, the carrying amount of the interest is reduced to zero and further losses are only recognized to the extent that the company has an obligation or has made payments on behalf of the investee.

Where a group entity transacts with an associate of the company, profits and losses are eliminated to the extent of the company's interest in the relevant associate.

As of December 31, 2009 and 2008, the Group had an investment in an entity of USD 1.5 million and USD 1.6 million, respectively. In 2008, the entity was accounted for under the equity method in that the Group was deemed to have significant influence by the fact it had an 18% ownership interest, a right to appoint one director, and were involved in the day-to-day technical operations. Early in 2009 this status changed in that no director was ever appointed and there is no involvement in the day-to-day technical operations. As a result of this change in influence, the Group now accounts for this investment on the cost basis.

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

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

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

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

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

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

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

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

Current and deferred tax for the period
Current and deferred tax are recognized as expense or income in the income statement, except when they relate to items recognized directly to equity, in which case the tax is also recognized directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of Norse Energy's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

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

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

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

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

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

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

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

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

Intangible assets such as capitalized exploration costs and license acquisition costs are subject to management review at least quarterly to confirm that the carrying amount does not exceed the recoverable amount. The evaluation includes technical, commercial and management reviews and the

assessment of whether plans for future drilling in the license exists or whether a development decision is planned in the near future. When this is no longer the case, the costs are written off.

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

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

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

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

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

If the hedge of a cash flow results in an asset or liability being recognized, all former gains and losses recognized directly in equity are transferred from equity and included in the initial measurement of the asset or liability. For other cash-flow hedges, gains and losses recognized directly in equity are taken to the income statement in the same period as the cash flow which comprises the hedged object is recognized in the income statement.
If the hedge no longer meets the criteria for cash-flow hedge accounting, the hedge accounting is discontinued. The cumulative gain or loss on the hedging instrument recognized directly in equity remains separately recognized in equity until the forecast transaction occurs.

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

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

Pension expenses
All employees in Norway and the US are organized under a defined contribution plan in which pension fund contributions are charged to profit upon payment. There is no pension plan for the employees in Brazil.

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

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

Inventory
Inventory consists of crude oil and is valued at lower of production cost and net realizable value. Production cost consists of cost of direct material, labor and a proportion of corporate overhead cost. Net realizable value is the estimated selling price in the ordinary course of business, less estimated selling expenses.

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

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

Cash-flow hedges
Cash-flow hedges represent the total net change in the fair value of the cash-flow hedge until the hedged cash flow arises or is no longer expected to arise.

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

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

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

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

Provisions
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is recognized through profit and loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. The present obligation under onerous contracts are recognized as provisions.

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

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

Exploration and leasehold costs
The Group capitalizes the costs of drilling exploratory wells and leasehold costs pending determination on whether the wells have found proved oil and gas reserves. Judgments on whether these expenditures should remain capitalized or charged to exploration and dry hole cost in the period may materially impact the operating income.

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

Reserves
The Group obtains reserve reports at least annually to establish the expected production profiles for the fields in production and the expected economic lifetime of the fields. Any significant reduction in reserves might lead to a write down of field investments through impairment tests, increased future depreciation and alterations of planned capital expenditures. The carrying amounts for field investments were USD 171 million and USD 122 million in 2009 and 2008, respectively.

Inventory
Estimated selling price is normally based on Brent Blend and the estimated selling expenses are based on average direct production costs including royalties. The carrying amounts for inventory were nil and USD 0.3 million in 2009 and 2008, respectively.

Asset Retirement Obligation
When production from a well or a field ceases, the Group is obligated to shut in the well and remove installation from the well or field. Provisions for these costs are made based on the best available estimates from the field operator, based on today's technology and today's prices for equipment and manpower. The amount recognized is the estimated expenditures determined in alignment with the field operator, local conditions and requirements. Asset retirement obligations of USD 12.7 million and USD 15.4 million are recognized as of December 31, 2009 and 2008, respectively.

Technical risk in development of Brazilian oil and gas fields and production start-up
The development of the Brazilian 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.

Tax
The ability to realize the deferred tax asset is based upon estimated future taxable profits and may be dependent upon changes in tax legislation in Norway, Brazil and the USA.

Financial Instruments
Valuation of unquoted financial instruments recognized at fair value, is based on estimated future cash flows and discounted with interest rates prevailing December 31, 2009.

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

Note 8. Income tax
Note 10. License interests and exploration assets and properties and field investments
Note 11. Goodwill and other intangible assets
Note 12. Financial instruments
Note 18. Asset retirement obligation

Note 4. Disposal of shares of a subsidiary

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

Note 5. Jointly controlled assets

Brazil
Santos Basin
Norse Energy has interests in multiple E&P license interests. The Group's entrance in Brazilian oil industry was made by participating in three oil development and production licenses located in the Santos Basin outside the southeast coast of Brazil that are operated by Petrobras. These licenses are for Coral, Estrela-do-Mar and Cavalo Marinho. As of December 31, 2009, Norse Energy owns a 50% interest in Cavalo Marinho, 65% in Estrela-do-Mar, and 35% interest in Coral.

The Coral field was abandoned in 2009. However, the Group expects that there is still a significant volume left in the reservoir to potentially justify a redevelopment in conjunction with development of the other fields in the area. Therefore, the field has not been relinquished. The Group has entered into joint operating agreements for interests in the Cavalo Marinho field, the Estrela-do-Mar field and the Coral field.

In the ANP (Brazilian Petroleum Agency) 9th bidding round held in November 2007, the Group was awarded three blocks in the Santos basin; blocks S-M-1035, S-M-1036 and S-M-1100. Norse Energy is the operator of these blocks with an interest of 50 %. The contracts were signed in 2008. During 2009, the Group acquired seismic data relating to the three exploration blocks.

Camamu-Almada Basin
Norse Energy's asset portfolio in Brazil also includes two distinct license interests in the Camamu-Almada offshore basin, located on the northeastern coast of the country: BCAM-40 Block and the Sardinha field.

The concession for BCAM-40 was awarded to Petrobras in 1998. In 1999 Petrobras presented a farm in opportunity for participation in the concession. As a result of that offering a Consortium Contract, a Participation Agreement and a Joint Operating Agreement with Petrobras, Queiroz Galvão and Petroserv were executed in 2000. In 2006, Norse Energy finalized the acquisition of Rio das Contas Produtora de Petróleo Ltda from Petroserv, a company that participates in the consortium. Two important discoveries were made on this block: the Manati gas field, currently one of the largest unassociated gas fields in Brazil, and the Camarão Norte (BAS-131) oil and gas accumulation, which was declared commercial in 2009. Petrobras operates the development and production activities in the BCAM-40 block and holds 35 % of the interests, while Queiroz Galvão (45 %) and Brasoil do Brasil (10 %) are the partners along with Rio das Contas who participates with 10 %. The remaining part of the BCAM – 40 exploration block was relinquished back to ANP in September 2009.

The Sardinha field lies approximately 3 kilometers from the coast line of Bahia State. It is a gas field with an oil rim on the eastern side of the structure. The operator is El Paso Corporation (40%) and the partners are Petrobras (40%) and Norse Energy (20%). The consortium is currently discussing the

development plan of the field.

The Group farmed out its 18.3% participating interest in the BM-CAL 5 block to Petrobras and Queiroz Galvão in March 2009. There was no compensation for the farm out, but the transfer of ownership implied that the Group will have no further drilling commitments related to this block. The formal reassignment approval from ANP is expected soon.

The BM-CAL 6 block located offshore the Bahia state was relinquished back to ANP as the drilling of the Peroba prospect was unsuccessful.

USA
In the US, certain of the natural gas wells are in joint control with other partners. The joint operating agreements correspond to a widely adopted practice in the international oil industry where companies endeavor to share the risks inherent in exploration and production projects.

Note 6. Operating segments

The Group has four reportable segments defined by its strategic business units. The units offer different products and are managed separately due to different technology, financial resources and marketing strategies required. The following summary describes the operations in each of the segments:

- **Exploration and production of oil and natural gas in Brazil (Brazil E&P)**
  Brazil E&P participates in a number of oil and natural gas exploration and production licenses located in the Santos basin outside the southeast cost of Brazil and in the Camamu-Almada basin offshore Brazil in the state of Bahia. All revenue from this segment is from sales to one customer, Petrobras.
- **Exploration and production of natural gas in the US (US E&P)**
  The US E&P operation is an independent natural gas company engaged in the acquisition, development and operation of natural gas properties located in the Appalachian basin. The Group operates approximately 80 wells and owns interests in approximately 120 non-operated wells. The segments land, geological and geophysical activities are located on Buffalo, NY.
- **Gathering and transmission of natural gas in the US (US G&T)**
  The Group owns and operates approximately 350 miles of gathering and transmission pipelines. The US G&T segment comprises one pipeline system that is over 320 miles in length and is capable of gathering natural gas from over 6,500 gas wells located in western New York and northwestern Pennsylvania. The lines have delivery points into major interstate pipelines, as well as to local end users.
- **Energy Marketing in the US (US EM)**
  The US EM segment is an established energy marketing and trading company that creates margin by cost effectively aggregating supply from Appalachian producers, marketers and utilities. The focus of the US EM segment is to add value by attracting gas flow to its proprietary pipelines and by optimizing the value of US E&P gas production and that of the other local Appalachian producers. Customers are split between larger wholesale customers, such as utilities, and commercial and industrial consumers. This creates an effective portfolio from a risk and unit margin perspective.

The remaining of the Group's activities and intercompany eliminations are shown in the "corporate and eliminations" column. These activities mainly consist of funding, administration and other corporate functions as deemed necessary.

2009

in USD thouands	Brazil E&P	USA E&P	USA G&T	USA EM	Corporate and eliminations	Consolidated
Revenues - external	34 650	15 257	3 767	96 338	-577	149 435
Revenues - within the group	-	390	535	8 841	-9 766	-
Total revenue	**34 650**	**15 647**	**4 302**	**105 179**	**-10 343**	**149 435**
EBITDA	**9 193**	**3 432**	**2 160**	**2 471**	**-9 840**	**7 416**
Interest revenue	3 249	14	13	93	81	3 450
Interest expense	-17 051	-918	-621	-3	-10 666	-29 259
Foreign exchange gain/ -loss	32 837	-	-	-	-8 188	24 649
Depreciation, amortization and impairment	-20 458	-11 767	-1 339	-62	-456	-34 082
Share of loss from associates and joint ventures	-	-99		-	-	-99
Other financial items gains/ -losses	-	-122	10	-	693	581
Income tax	-4 283	1 087	-2 010	-1 027	11 269	5 036
Profit / -loss after tax	**3 487**	**-8 373**	**-1 787**	**1 472**	**-17 107**	**-22 308**
Material non-cash items						
Impairment and non-cash items of dry hole & exploration	19 800	3 639	351	-	-	23 790
Depreciation	6 779	10 528	988	62	413	18 770
Warrants effect	-	-	-	-	-707	-707
Total assets	292 889	118 825	18 157	32 996	6 817	469 684
Total liabilities	193 738	80 557	17 403	19 861	39 091	350 650

2008

in USD thouands	Brazil E&P	USA E&P	USA G&T	USA EM	Corporate and eliminations	Consolidated
Revenues - external	73 551	12 887	3 540	216 549	-	306 527
Gain on disposal of Medina assets	-	27 981	-	-	-	27 981
Revenues - within the group	-	120	1 467	8 667	-10 254	-
Total revenue	**73 551**	**40 988**	**5 007**	**225 216**	**-10 254**	**334 508**
EBITDA	**19 766**	**25 874**	**3 060**	**6 250**	**-13 721**	**41 229**
Interest revenue	4 162	289	32	210	497	5 190
Interest expense	-15 804	-621	-653	-45	-11 838	-28 961
Foreign exchange gain/(loss)	-16 460	-	-	-	22 288	5 828
Depreciation, amortization and impairment	-37 124	-4 106	-974	-34	-392	-42 630
Share of loss from associates and joint ventures	-	-58	-	-	-	-58
Other financial items - gains/(losses)	-	-	-58	570	7 260	7 772
Income tax	10 674	-10 032	-620	-2 695	3 763	1 090
Profit after tax	**-34 786**	**11 346**	**787**	**4 256**	**7 857**	**-10 540**
Material non-cash items						
Impairment and non-cash items of dry hole & exploration	-16 600	-	-	-	-	-16 600
Depreciation	-11 213	-4 012	-1 068	-34	-392	-16 719
Warrants effect	-	-	-	-	8 096	8 096
Investments in associates and joint ventures	-	1 851	-	-	-	1 851
Total assets	228 940	99 890	19 825	45 044	4 379	398 078
Total liabilities	215 412	71 183	16 650	32 087	-5 003	330 329

Geographical Segment

in USD thousands	Brazil 2009	Brazil 2008	North America 2009	North America 2008	Corporate and eliminations 2009	Corporate and eliminations 2008	Total 2009	Total 2008
Revenues - external	34 650	73 551	115 362	260 957	-577	-	149 435	334 508
Non-current assets (1)	240 406	183 675	125 035	110 850	82	86	365 523	294 611

(1) Non-current assets include properties and field investments and intangible assets (exluding financial instruments and deferred tax assets).

Revenue from major products and services

in USD thousands	2009	2008
Natural gas trading	98 219	213 706
Oil sales	298	36 141
Natural gas sales	48 419	47 877
Gathering and transmission income	3 599	3 225
Medina gain	-	27 981
Mark-to-market adjustments and other income	-1 100	5 578
Total	149 435	334 508

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

Segment operating profit includes revenues and expenses from inter-segment transactions. Inter-segment revenues and segment expenses are eliminated on consolidation. Deliveries between the segments are based on the arm's length principle (that is, prices prevailing in transactions with external customers that are comparable to intercompany transactions).

Note 7. General and administrative expenses

Employee benefit expenses

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

in USD thousands	2009	2008	2007
Wages	9 338	9 519	6 135
Employer's contribution	1 632	1 636	1 621
Other compensation	1 821	2 805	952
Total	**12 791**	**13 960**	**8 707**

Number of employees	**2009**	**2008**	**2007**
Norway	4	5	5
USA	68	80	68
Brazil	13	25	21
Canada	1	1	1
Total	**86**	**111**	**95**

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

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

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

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

The Group has established a pension scheme for all employees in Norway that executive management in Norway participates in. There are no agreements in place for severance payments for executive management except for the CEO.

The remuneration of the CEO and other executive management in 2009 was based on the same general principals as disclosed above for the current year.

Management remuneration
Executive management is considered to consist of the CEO (who is also Head of US operations), CFO and Head of Brazil operations.

Executive management remuneration is summarized below:

in USD thousands

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

2008	Salary	Bonus	Benefits	Pension costs	Value of options issued	Total
Øivind Risberg, CEO	529	200	43	21	121	**914**
Anders Kapstad, CFO	259	35	27	9	46	**376**
Kjetil Solbrække, Head of Brazilian operations	325	-	-	-	-	**325**
Total	**1 113**	**235**	**70**	**30**	**167**	**1 615**

The CEO has an agreement of two year's salary in case of resignation. The CFO participates in the general pension scheme established in the parent company (see details on pension plan below). Norse Energy has an employee options program, refer to note 13 for details.

The Group has a long-term note receivable from the CEO of USD 50 thousand. The note has no stated maturity date, is due on demand and bears an interest rate of prime plus 0.5%.

The Group has a long-term note receivable from Kjetil Solbrække, Head of the Brazilian operations, of USD 1.1 million. The note principal is due in March 2013 and carries an interest of 3%.

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

in USD thousands	2009	2008	2007
Dag Erik Rasmussen, Chairman (1)	-	-	-
Petter Mannsverk Andresen, former Chairman (1)	57	62	64
Other board members	196	159	201
Total	**253**	**221**	**265**

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

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

Pension plan
The parent company is required to have an occupational pension scheme in accordance with the Norwegian law on required occupational pension ("Lov om obligatorisk tjenestepensjon"). The Group established a pension scheme in 2006 that meet the requirements of this law. In June 2007, the Group changed the pension scheme to a defined contribution scheme. Subsequent to this change, no pension liability is recognized in the balance sheet. The total expense booked under the pension scheme was USD 99 thousand and USD 67 thousand for 2009 and 2008, respectively.

The Group has a defined contribution plan for the employees in the US. Norse Energy does not have any pension plans in place for employees in Brazil.

Auditor's remuneration
Deloitte was elected as group auditors from the financial year 2008. The 2008 figures include audit, tax and advisory services from both Deloitte and the predecessor group auditor Ernst & Young. Fees, excluding VAT, to the auditors are included in general and administrative expense and are shown below:

in USD thousands	2009	2008	2007
Deloitte			
Statutory audit and audit related services	721	245	-
Tax services	126	10	36
Other	23	2	-
Ernst & Young			
Statutory audit and audit related services	-	1 081	1 056
Tax services	-	205	83
Other	-	13	8
Total	**870**	**1 556**	**1 184**

Note 8. Income tax

Income tax expense for the year

in USD thousands	2009	2008	2007
Norway			
Tax Payable	-	-	-
Change in deferred tax	-	-	-
Brazil			
Tax Payable	2,313	3,888	6,270
Change in deferred tax	1,970	-14,562	-15,423
USA			
Tax Payable	-	-	732
Change in deferred tax	-9,319	9,584	-204
Canada			
Tax Payable	-	-	888
Change in deferred tax	-	-	-
Net income tax expense	**-5,036**	**-1,090**	**-7,737**

Deferred income tax relates to the following:

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

in USD thousands	Norway	Brazil	US	Total
Losses to carry forward	29 754	1 970	14 623	**46 347**
Current assets	-	-	-826	**-826**
Current liabilities	-	-	1 527	**1 527**
Non-current assets	-1 230	31 760	-25 615	**4 915**
Non-current liabilities	-31	-17 774	3 460	**-14 345**
Deferred tax assets not recognized	-28 493	-5 851	-4 956	**-39 300**
Net deferred tax assets/ -liabilities as of December 31, 2008	**-**	**10 105**	**-11 787**	**-1 682**

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

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

in USD thousands	2009	2008
Loss before tax	-27 344	-11 630
Income tax benefit at nominal income tax rate of 34%	-9 297	-3 954
Non-deductable expenses	769	1 366
Non-taxable income	-100	-1 043
Tax included in impairment of asset calculation	-232	9 410
Effect of previously unrecognized and unused tax losses now recognized as deferred tax assets	-4 956	-4 907
Adjustment to previous years	2 004	-
Changes in tax legislation	-231	-
Tax expense impact of nominal tax rate other than 34% (1)	189	1 131
Tax losses for which no deferred tax asset was recognized	4 340	1 313
Other effects (2)	2 478	-4 406
Income tax expense	-5 036	-1 090

(1) Taxes with nominal tax rates other than 34% relate to corporate tax rate in Norway and federal taxes in the US with tax rate different from state taxes.
(2) Amount by which non-monetary assets reported at historical rates and re-converted to local currency at balance sheet date rates are lower (exceeds) their tax base equivalent reported in local currency and withholding tax.

The Group has net operating loss carry forwards for income tax reporting purposes as depicted on the schedule below. The tax loss carry forwards in Norway have unlimited duration and are related to the parent company Norse Energy Corp. ASA. The related deferred tax asset has not been recognized due to the uncertainty of whether any of the tax loss carry forwards can be utilized. The tax loss carry forwards in Brazil have unlimited duration; however the amount that can be offset towards taxable income in any given year is limited to 30%. As a result, the operations in Brazil recognize a tax payable even though a net tax loss carry forward exists. In the US, the tax loss carry forwards have a limited duration of 20 years. The prevailing tax authority may limit the utilization of the net operating loss carry forwards in the event of a change in control.

Losses to carry forward	Norway	Brazil	US	Total
2009	-	-	-	-
2010	-	-	-	-
2011	-	-	-	-
2012	-	-	-	-
2013	-	-	-	-
2014	-	-	-	-
2015	-	-	-	-
After 2015	-	-	67 467	67 467
No expiration date	152 731	33 953	-	186 684
Total tax loss carried forward	**152 731**	**33 953**	**67 467**	**254 151**

Note 9. Earnings per share and diluted earnings per share

The Group had no potential dilutive ordinary shares as of December 31, 2009, 2008 and 2007.

in USD thousands, unless otherwise indicated	2009	2008	2007
Net loss attributable to equity holders of the parent	-18 476	-10 540	-28 705
Weighted average number of shares outstanding	364 086 269	352 805 925	352 555 925
Basic and diluted earnings per share	-0,05	-0,03	-0,08

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

Diluted earnings per share
When calculating the diluted earnings per share, the weighted average number of shares outstanding is normally adjusted for all dilutive effects relating to the Group's warrants and employee stock options. As of December 31, 2009, 13,415,000 shares have been granted and a total of 75 million warrants are outstanding.

The warrants are not considered to have a dilutive effect as they were out-of-the money compared to the average stock price in 2009. Further, since the Group incurred a net loss for the years 2009, 2008 and 2007, the options and warrants have a anti-dilutive effect and are therefore, not considered when calculating diluted earnings per share.

For details regarding the employee stock option plans refer to note 13. Refer to 17 for details relating to the bond loans with detachable warrants.

Note 10. License interests and exploration assets and properties and field investments

Licenses and exploration assets

in USD thousands	Estrela-Do-Mar	Cavalo Marinho	BCAM-40	BM-CAL 5&6	Sardinha	9th Bid-Blocks	Other	Total Brazil	US	Total
Acquisition cost at January 1, 2009	**19 814**	**57 277**	**15 699**	**28 496**	**3 624**	**8 232**	**3 943**	**137 085**	**32 627**	**169 712**
Transfer to field investments and equipment								-	-16 408	-16 408
Investments	450	2 090	6 829	-	904	623	-	10 896	8 907	19 803
Foreign currency translation	6 811	17 851	6 326	-	1 233	2 728	25	34 974		34 974
Acquisition cost at December 31, 2009	**27 075**	**77 218**	**28 854**	**28 496**	**5 761**	**11 583**	**3 968**	**182 955**	**25 126**	**208 081**
Accumulated impairment/ exploration costs charged to profit	-	-	-28 029	-32 602	-	-	-3 862	-64 493	-2 442	-66 935
Foreign currency translation	-	-	3 732	4 106	-	-	-	7 838	-	7 838
Net carrying value at December 31, 2009	**27 075**	**77 218**	**4 557**	**-**	**5 761**	**11 583**	**106**	**126 300**	**22 684**	**148 984**
Current year impairment/exploration costs previously capitalize	-	-	-19 800	-	-	-	-	-19 800	-2 442	-22 242

in USD thousands	Estrela-Do-Mar	Cavalo Marinho	BCAM-40	BM-CAL 5&6	Sardinha	9th Bid-Blocks	Other	Total Brazil	US	Total
Acquisition cost at January 1, 2008	**19 568**	**55 940**	**18 999**	**15 926**	**3 519**	**-**	**753**	**114 705**	**4 412**	**119 117**
Investments	246	1 337	6 100	19 645	105	8 232	3 190	38 855	14 636	53 491
Reclassification of assets	-	-	-	-	-	-	-	-	13 579	13 579
Foreign currency translation	-	-	-9 400	-7 075	-	-	-	-16 475		-16 475
Acquisition cost at December 31, 2008	**19 814**	**57 277**	**15 699**	**28 496**	**3 624**	**8 232**	**3 943**	**137 085**	**32 627**	**169 712**
Accumulated impairment/ exploration costs charged to profit	-	-	-8 229	-32 602	-	-	-3 862	-44 693		-44 693
Foreign currency translation	-	-	3 261	4 106	-	-	-	7 368	-	7 368
Net carrying value at December 31, 2008	**19 814**	**57 277**	**10 731**	**-**	**3 624**	**8 232**	**81**	**99 759**	**32 627**	**132 386**
Current year impairment/exploration costs previously capitalize	-	-	-8 229	-32 602	-	-	-3 862	-44 693	-	-44 693

Production assets

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

in USD thousands	US natural gas properties	US pipelines	Manati	Coral	Total
Acquisition cost at January 1, 2008	**32 536**	**27 351**	**117 665**	**65 564**	**243 116**
Abandonment cost incurred	-	-	-	5 676	**5 676**
Investments	30 544	8 640	5 282	-	**44 466**
Reclassification of assets	-14 586	-	-	-	**-14 586**
Foreign currency translation	-	-	-28 031	-	**-28 031**
Acquisition cost at December 31,2008	**48 494**	**35 991**	**94 916**	**71 240**	**250 641**
Accumulated depreciation and impairment at January 1, 2008	-4 582	-6 764	-7 169	-65 564	**-84 079**
Impairment losses recognized in profit and loss	-	-57	-	-	**-57**
Depreciation expense	-3 435	-1 069	-10 042	-5 676	**-20 222**
Foreign currency translation	-	-	3 935	-	**3 935**
Accumulated depreciation and impairment at December 31, 2008	**-8 017**	**-7 890**	**-13 276**	**-71 240**	**-100 423**
Net carrying value at December 31, 2008	**40 477**	**28 101**	**81 640**	**-**	**150 218**

Furniture fixture and Equipment	2009	2 008
Acquisition cost at January 1	9 056	6 128
Investments	1 344	2 985
Disposals	-923	-
Foreign currency translation	921	-57
Acquisition cost at December 31	**10 398**	**9 056**
Accumulated depreciation and impairment at January 1	-2 804	-1 659
Depreciation expense	-1 258	-1 152
Impairment	-1 228	-
Disposals	703	-
Foreign currency translation	-131	7
Accumulated depreciation and impairment at December 31	**-4 718**	**-2 804**
Net carrying value at December 31	**5 680**	**6 252**

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 theunit-of-production method.

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

Impairment

As of December 31, 2009, Norse Energy obtained its annual reserve report from Gaffney Cline & Associates for the Brazilian assets and from Schlumberger for the US assets. Based on these reserve reports, as well as an analysis on the exploration efforts in fields where the certifying agents have not currently certified reserves, the Group has carried out an impairment assessment in line with prior year's methodology.

The net present value of the assets has been determined on a basis of their value in use. When estimating the net present value, the Group has utilized a discount rate of 11.56% and 12.75 % for the periods ended December 31, 2009 and 2008, respectively. This is a pre-tax discount rate and is calculated based on the Group's pre-tax weighted average cost of capital (WACC).

For Brazil, the utilized oil prices are based on a forward curve yielding USD 81.94/BOE in 2010, USD 85.81/BOE in 2011, USD 87.83/BOE in 2012, USD 89.31/BOE in 2013, USD 91.09/BOE in 2014, USD 92.92 in 2015 and inflated with 2% thereafter. Operating expenses are based on expenses from the filed development plan or better estimates if such estimates exist. No assets for Brazil were deemed to be impaired under this approach.

The valuation in the US is based upon the future NYMEX Strip Pricing of USD 6.30/MMBtu in 2010, USD 6.67/MMBtu in 2011, USD 6.77/MMBtu in 2012, USD 6.93/MMBtu in 2013, and USD 7.04/MMBtu for the remaining life of the wells. Operating expenses are based on expenses from the filed development plan or better estimates if such estimates exist. No assets for the US were deemed to be impaired under this approach.

The exploration license for the BCAM-40 block expired in September 2009 and was consequently relinquished to the Brazilian authorities (ANP). As a result, the Group has recognized an impairment charge of USD 12.5 million, net of related tax effects. Additional cost of USD 1.2 million in BMCAL-5 block was impaired since this block was farmed out.

Refer to note 27 for details on reserves (unaudited figures).

Note 11. Goodwill and other intangible assets

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

in USD thousands	Goodwill	Other intangible assets	Total
Acquisition cost at January 1, 2008	5 643	238	5 881
Investments	-	-	-
Acquisition cost at December 31,2008	**5 643**	**238**	**5 881**
Accumulated amortization and impairment at January 1, 2008	-	-91	-91
Amortization expense		-36	-36
Accumulated amortization and impairment at December 31, 2008	**-**	**-127**	**-127**
Net book value December 31, 2008	**5 643**	**111**	**5 755**

In 2006, Norse Energy recognized goodwill of USD 5.6 million and other intangible assets of USD 0.2 million after finalizing the purchase analysis of the acquisition of Mid American Natural Resources (MANR) which operates as the Group's energy marketing segment. The goodwill is assumed to have duration for as long as MANR's operations are profitable. The value of the employee contracts is amortized over seven years.

The Group performs an assessment of whether or not impairment indicators exist for intangible assets at the end of the reporting period. If such indicators are deemed present, the Group performs an impairment test of the assets. For 2009, no impairment indicators were identified as the financial results of MANR's operations are satisfactory and justify the value of the goodwill and other intangible assets.

Note 12. Financial instruments

Overview

The Group's policy is to monitor the risk associated with its floating interest loans, currency loans, the price for oil and gas, to assess the necessity to enter into financial instruments to limit risk and maximize income. As such, the Group has entered into various hedging transactions. Refer to note 22 for details on the company's financial risk management policy.

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

in USD thousands

	Carrying amount		Fair Value				Fair Value
Financial Assets	**2009**	**2008**	**2009**	Level 1	Level 2	Level 3	**2008**
Cash	37 303	32 207	37 303	37 303	-	-	32 207
Receivables:							
Trade accounts receivable (loans and receivables)	19 517	31 602	19 517	19 517	-	-	31 602
Other derivatives (fair value through P/L)	5 403	10 643	5 403	5 403	-	-	10 643
Othert short-term receivables (loans and receivables)	10 387	3 527	10 387	10 387	-	-	3 527
Other non-current assets:							
Other non-current assets	1 972	517	1 972	1 972	-	-	517
Total	74 582	78 496	74 582	74 582	-	-	78 496
Financial Liabilities							
Trade accounts payable and other current liabilities	-62 911	-26 445	-62 911	-62 911	-	-	-26 445
Interest bearing loans and borrowings (other liabilities):							
NEC01 unsecured bond loan (other liabilities)	-48 587	-40 527	-48 587	-48 587	-	-	-28 605
NEC02 unsecured bond loan (other liabilities)	-68 165	-64 796	-68 165	-68 165	-	-	-64 125
NEC03 unsecured bond loan (other liabilities)	-8 778	-8 805	-8 096	-	-8 096	-	-71
NEC04 unsecured bond loan (other liabilities)	-4 642	-3 822	-3 552	-	-3 552	-	-3 086
NEC05 unsecured bond loan (other liabilities)	-17 710	-17 677	-13 528	-	-13 528	-	-14 240
Floating rate borrowings (other liabilities)	-89 374	-47 548	-89 374	-89 374	-	-	-47 548
Other fixed rate borrowings (other liabilities)	-15 654	-41 480	-14 503	-	-	-14 503	-39 754
NECJ warrants (other liabilities)	-11 295	-12 002	-11 295	-11 295	-	-	-12 002
Own bonds in NEC02 (fair value through P/L)	1 030	1 138	1 030	1 030	-	-	1 138
Currency swap (fair value through P/L)	-	-4 711	-	-	-	-	-4 711
Other derivatives (fair value through P/L)	-1 871	-3 724	-1 871	-1 871	-	-	-3 724
Total	-327 957	-270 399	-320 852	-281 173	-25 176	-14 503	-243 173

	P&L impact	
	2009	**2008**
Financial Assets		
Other derivatives	-3 567	4 488
Oil put options	-	357
Shares in Biofuel Energy ASA	-	-1 069
Currency Swaps	1 859	1 150
Own bonds	-109	-
Financial Liabilities		
NEC J - Warrants	707	8 096

Determination of fair value

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

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

The NEC-J 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 3, Summary of significant accounting policies.

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

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

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

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

in USD thousands	2009	2008
Norway	-	-
Brazil		
Petrobras	5 788	5 498
Others	-	7 727
USA		
Exploration and production	555	1 391
Gathering and transmission	188	232
Energy marketing - wholesale	9 659	12 113
Energy marketing - retail	3 327	4 641
Total	19 517	31 602

The ageing of trade receivables at the reporting date was:

in USD thousands	2009		2008	
	Carrying value	Impairment	Carrying value	Impairment
Current receivables	18 689	5	31 218	100
Past due 0-30 days	700	50	10	-
Past due 31-120 days	128	88	284	44
Older than 120 days	-	-	90	-
Total	19 517	143	31 602	144

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

in USD thousands	2009	2008
at January 1	144	51
Provision for bad debt during the period	43	144
Realized losses for the year	-44	-51
at December 31	143	144

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

December 31, 2009
in USD thousands

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

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

December 31, 2008
in USD thousands

Non-derivative financial liabilities	Total	0-1 months	1-3 months	3-12 months	1-3 years	3-5 years	> 5 years
NEC01 unsecured bond loan	-53 439	-	-	-4 152	-49 287	-	-
NEC02 unsecured bond loan (fixed rate)	-89 625	-	-	-4 875	-84 750	-	-
NEC03Pro unsecured bond fixed rate	-10 109	-	-	-457	-9 652	-	-
NEC 04 unsecured bond loan loan (floating rate)	-25 443	-	-977	-953	-3 811	-19 702	-
NEC04Pro unsecured bond issue	-5 633	-	-222	-222	-887	-4 302	-
US loans	-11 216	-13	-289	-5 230	-1 977	-1 977	-1 730
Brazil loans	-104 815	-1 414	-2 850	-22 670	-54 857	-16 139	-6 885
Accounts payable and other payments	-26 563	-15 559	-9 444	-1 104	-456	-	-
Total Non-derivative financial liabilities	-326 843	-16 986	-13 782	-39 663	-205 677	-42 120	-8 615

Derivative financial liabilities	Total	0-1 months	1-3 months	3-12 months	1-3 years	3-5 years	> 5 years
Currency swap Norway							
NEC pay to bank	-28 286	-	-	-2 074	-26 212	-	-
Bank pay to NEC	23 827	-	-	1 981	21 846	-	-
MANR Financial contracts							
Long contracts	3 394	998	1 138	1 038	220	-	-
Short contracts	-2 934	-1 018	-1 027	-607	-282	-	-
Total derivative financial liabilities	-3 999	-20	111	338	-4 428	-	-

In determining the maturity analysis above, the Group has utilized the current spot rates at year-end 2009 and 2008, respectively. For the MANR financial contracts, the cash flows projected from the long and short positions are calculated as the difference between the terms of each financial contract and the forward settlement prices at year-end 2009 and 2008.

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

in USD thousands	2009		2008	
	NOK	BRL	NOK	BRL
Cash and cash equivalents	381	13 105	461	10 891
Trade receivables	-	5 788	-	13 225
Loans	-48 587	-59 749	-44 793	-28 429
Trade payables	-93	-33 977	-191	-10 147
Net balance sheet exposure	-48 299	-74 833	-44 523	-14 460

A 20% strengthening or weakening of the USD against the following currencies at December 31, 2009 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.

in USD thousands	2009		2008	
USD vs NOK	+ 20 %	- 20 %	+ 20 %	- 20 %
Cash	-378	566	-77	115
Loans	8 098	-12 147	7 465	-11 198
Currency swap	-	-	-3 847	5 771
Net P&L effect	7 720	-11 581	3 541	-5 312

USD vs BRL	2009 + 20 %	2009 - 20 %	2008 + 20 %	2008 - 20 %
Cash	-2 621	2 621	-2 178	2 178
Receivables	-1 158	1 158	-2 710	2 710
Payables	6 795	-6 795	2 029	-2 029
Loans	11 950	-11 950	5 686	-5 686
Net P&L effect	14 966	-14 966	2 827	-2 827

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

Interest rate risk
The Group is exposed to interest rate risk as entities in the group borrow money at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings and by using interest rate currency swap contracts.

A change in 100 basis points in interest rates at the reporting date would have increased (decreased) profit and loss before tax by the amounts shown in the table below. This analysis assumes foreign currency rates and other variables to be constant.

in USD thousands	2009 + 100 bp	2009 - 100 bp	2008 + 100 bp	2008 - 100 bp
Cash	281	-227	327	-293
Floating interest loans	-894	894	-473	473
Net P&L effect	-613	667	-146	180

Commodity price risk
The Group is exposed to fluctuations in the prices for oil and natural gas. To mitigate this risk in Brazil, the Group has entered into a long-term take-or-pay contract with Petrobras for the sale of natural gas from the Manati field. In the US, the Group utilizes natural gas futures to hedge certain exposures to market price fluctuations on its anticipated sales. The derivative instruments have the effect of locking in for specified periods the prices the Group will receive for the volumes which the derivative relates. While these derivatives are structured to reduce the Group's exposure to changes in prices associated with the derivative commodity, they also limit the benefit that might otherwise been received.

The Group has entered into fixed price contracts for physical delivery of gas, as well as forward contracts for a portion of production.

1. Fixed price contracts with physical delivery
   The Group had entered into a fixed price contract for the physical delivery of 1,500 Mcf/day from November 2006 to October 31, 2008 (USD 6.35 per MMBtu). While this amount was sold forward and hedged at a fixed price, it relates to physical deliveries and is consequently not subject to IAS 39, and no fair value has been recognized on these transactions.

2. Forward contracts
   In the US, the Group has sold forward the following volumes of natural gas by using financial derivatives:
   • 110,000 MMBtu/month for the period January 1, 2010 to April 30, 2010 at an average price of USD 6.78/MMBtu.
   • 90,000 MMBtu/month for the period May 1, 2010 to September 30, 2010 at an average price of USD 7.13/MMBtu.
   • 80,000 MMBtu/month for the period October 1, 2010 to December 31, 2010 at an average price of USD 7.46/MMBtu.
   • 70,000 MMBtu/month for the period January 1, 2011 to August 31, 2011 at an average price of USD 5.77/MMBtu.
   • 60,000 MMBtu/month for the period September 1, 2011 to March 31, 2012 at an average price of USD 5.77/MMBtu.

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

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

All open positions (financial hedging transactions as well as physical fixed price contracts) are recognized at fair value through profit and loss at year-end. The fair value of these transactions is calculated based on NYMEX futures and forward basis. The Group recognized an unrealized loss for the 12 months ended December 31, 2009 of USD 2.2 million.

The following shows the mark-to-market value of outstanding contracts for future purchase and sale of gas and unrealized gain as of December 31, 2009:

in USD thousands, unless otherwise indicated	Dth	Market value
Future purchases	7 316 000	1 703
Future sales	-8 405 500	848
Basis reserve		-105
Fair value at 12.31.09		2 446
Fair value at 12.31.08		4 654
Net unrealized loss as of 12.31.09		-2 208

As of December 31, 2009, the Energy Marketing segment had net open contracts totaling 1,089, 000 Dth (sale-contracts in excess of purchase-contracts), of which about 36,000 Dth have NYMEX risk. These open contracts are priced at NYMEX plus a basis differential. The existing efficient financial OTC and NYMEX based markets, mitigate the risk for price variations attributable to the NYMEX price. Accordingly, the only price risk related to these open contracts is the risk for fluctuation of the basis differential. In the Energy Marketing segment's core market area, the basis differential varies between USD 0.10 and USD 0.40 depending on which pipeline the gas is traded on and the time of the year. Historically, this differential has varied very little between periods.

Note 13. Share-based payment plans

Norse Energy has an option program consisting of 18 million shares for key employees. As of December 31, 2009, 13.4 million options have been granted (6.4 million were granted during 2009) of which 7.1 million options have vested. All options under the plan will be settled in shares.

Options granted as of December 31, 2009, are as follows:

in USD thousand, unless otherwise indicated

Name	No. of shares	Option price (NOK)	Exercise period	Estimated value
Øivind Risberg	4 000 000	4,04	June 1, 2007 - May 31, 2012	1 156
Anders Kapstad	1 000 000	3,82	August 1, 2007 - June 29, 2012	226
Other employees	8 415 000	3.35 - 4.16	February 18, 2008 - November 2, 2014	2 098
Total	**13 415 000**			**3 480**

The fair value of the options is estimated at grant date by an independent third party expert using the Black-Scholes – Merton option pricing model. The exercise price of the options is equal to the market price of the shares at the grant date plus eight percent, and the volatility of the warrants that the Group issued and listed on the Oslo Stock Exchange in July 2006. The expected exercise date is set to the contractual vesting period (ranging from 1.5 years to 2 years) plus two years for the CEO. Risk free interest rate used is 2.44% - 5.26% calculated by using rates from Norges Bank at the grant (bonds

and certificates) based on the expected term of the option being valued. The implied volatility used in the calculation is 35.7% - 74.5%, and no dividends are incorporated.

The options are expensed over the vesting period, which was USD 0.5 million and USD 0.6 million in 2009 and 2008, respectively. The stock options outstanding at the end of 2009 had an exercise price range of NOK 3.15 – NOK 4.16 and a weighted average remaining contractual life of 1,156 day and 912 days in 2009 and 2008, respectively.

No options were exercised during 2009 compared to 500,000 options exercised in 2008. Should an employee decide to terminate their employment prior to the start of the exercising period, the options shall expire without any further compensation. 2,325,000 options and 100,000 options were terminated during 2009 and 2008, respectively. As of December 31, 2009, thirty-six employees have been granted options. Refer to note 7 for further details regarding the Group's options programs.

Note 14. Inventory

in USD thousands	December 31, 2009	2008
Crude oil, Brazil	-	290

Note 15. Cash and cash equivalents

Restricted cash
Restricted cash in Norway relates to employee withholding taxes of USD 0.08 and USD 0.08 million for 2009 and 2008, respectively. Restricted cash relating to a margin call for a currency swap was nil and USD 6.9 million for 2009 and 2008, respectively.

In Brazil, cash of USD 4.0 million and USD 8.2 million are restricted for installments of long-term debt to Unibanco for 2009 and 2008, respectively. The restricted cash of USD 8.0 million included in other non-current assets as of December 31, 2008, to cover asset retirement obligations on the Coral field was fully utilized during 2009.

Restricted cash in the US consists of USD 1.3 million and USD 4.3 million to back letters of credit in the energy marketing segment for 2009 and 2008, respectively. Included in other current assets are restricted cash for margin calls of USD 0.4 million and 0.9 million for 2009 and 2008, respectively.

Overdraft facilities
Norse Energy do Brazil has a BRL denominated bank overdraft facility of USD 1.7 million as of December 31, 2009 and USD 2.1 million as of December 31, 2008, with USD 1.6 million and nil drawn down as of December 31, 2009 and December 31, 2008, respectively. The overdraft facilities for Coplex and Rio das Contas were cancelled in 2009 and their balances as of December 31, 2008 were USD 0.7 million and USD 1.3 million, respectively.

Norse Energy Corp. USA has a bank overdraft facility of USD 21.8 million as of December 31, 2009, and 15 million as of December 31, 2008, whereof USD 19.2 million and USD 4.3 million was drawn down as of December 31, 2009 and 2008, respectively.

Note 16. Share capital and reserves

in USD thousands, unless otherwise indicated	Number of shares	Share capital	Share premium
Balance at December 31, 2007	352 664 530	43 526	76 983
Share premium reserve reduction [1]		-	-76 983
Exercise of options	500 000	88	261
Balance at December 31, 2008	**353 164 530**	**43 614**	**261**
Share issue, September 2009	35 316 451	5 393	17 366
Balance at December 31, 2009	**388 480 981**	**49 007**	**17 627**

(1) The reduction in share premium approved at the Annual General meeting held in May 2008, was registered with the Register of Business Enterprises in April 2009.

All issued shares have a par value of NOK 0.88 and are of equal rights. Norse Energy Corp. ASA is incorporated in Norway and the share capital is denominated in NOK. In the table above, the issued capital and share premium is translated to USD at the foreign exchange rate in effect at the time of each share issue.

Norse Energy Corp. ASA holds 108,605 treasury shares as of December 31, 2009. Management has been authorized to purchase up to 35,266,453 treasury shares.

The Group has issued 75 million warrants in connection with its USD 75 million bond loan. The warrants give the right to new ordinary shares at NOK 6.10 per share. See note 17 for details relating to the USD 75 million bond loan.

Note 17. Interest-bearing debt

Below is a summary of the company's interest bearing debt as of December 31, 2009:

in USD thousands	Interest rate	date	Within 1 year	After 1 year	Total
Norway					
NEC 01 - NOK 286 million bond loan	10% fixed	7/13/2010	48 587	-	**48 587**
NEC 02 - USD 75 million bond loan	6.5% fixed	7/14/2011		68 165	**68 165**
NEC 03 - USD 8.8 million bond loan	9.5% fixed	7/6/2010	8 778	-	**8 778**
NEC 04 - NOK 27 callable bond loan	11.5% fixed	9/25/2012	-	4 642	**4 642**
NEC 05 - USD 17.8 million bond loan	10.707%	9/25/2012	-	17 710	**17 710**
Brazil					
Coplex - USD	Libor + 5.5%	10/15/2010	3 333	-	**3 333**
Coplex - USD	Libor + 4.75%	10/15/2010	3 334	-	**3 334**
NEdB - USD	9.55% fixed	10/13/2012	9 800	-	**9 800**
NEdB - USD	6.60 % fixed	7/5/2009	833	-	**833**
RdC - BRL	5.3% - 6.8% + TJLP	10/15/2013	29 022	-	**29 022**
RdC - USD	Libor + 4.65%	12/05/2011	1 864	-	**1 864**
RdC - USD	Libor + 4.65%	12/28/2011	1 973	-	**1 973**
RdC Bridge loan - BRL	CDI + 7.5%	03/17/2009	30 728	-	**30 728**
USA					
Gathering & Transmission	4.250%	9/30/2015	788	4 233	**5 021**
Exploration and production	prime + margin	1/1/2010	19 120	-	**19 120**
Total			**158 160**	**94 750**	**252 910**

The effective interest rate presented in the table for the NOK 286 million bond loan and the USD 75 million bond loan are the contractual rates, not the calculated interest rate under IFRS which is based on amortized cost.

Certain loans are classified as short-term debt as of December 31, 2009, as the Group was not in compliance with all financial covenants and the waivers obtained does not meet the IFRS requirements in order to keep the loans classified as long-term debt. These loans are grouped as due within one year in the above table. See further details below.

Restructuring
In December 2009, Norse Energy Corp. ASA received approval from the bondholders for a full restructuring of its bond portfolio by restructuring all of the outstanding bonds, NEC01, NEC02, NEC03, NEC04 and NEC05. The debt obligations will be separated between the US and Brazilian entities. The bond debt restructuring proposal was accepted by bondholders in a bondholder's meeting in December 2009, and will become effective upon the completion of the condition precedents stated in the revised loan agreements, including execution of a number of amendment agreements by the parties thereto and the demerger taking effect before July 1, 2010.

The principal repayments of the loan agreements will be changed to repayment of approximately USD 23 million in 2010, approximately USD 24 million in 2011, USD 56 million in 2012, USD 4 million in 2013 and USD 10 million in 2014. This reduces principal repayments in 2010 by approximately USD 34 million and USD 51 million in 2011. The bondholders are compensated with (amongst others) security by pledge over shares in subsidiaries and intercompany loans, early repayments of 15% of all outstanding bonds, new warrants in the US entity and increased interest coupon.

Existing debt

Norway financing

NOK 286 million bond loan ("NEC 01")
In 2005, Norse Energy issued a 5-year senior unsecured bond loan, with a total borrowing limit of NOK 300 million. During 2008, bondholders representing NOK 14 million exchanged bonds in NEC 01 for NEC 04 bonds leaving the balance for NEC 01 at NOK 286 million. The bonds are listed on the Oslo Stock Exchange (OSE) under the ticker "NEC01". The bonds have a five year bullet maturity, with an annual coupon rate of 10 %.

The Group settled the currency swap agreement relating to NEC 01 in March 2009, which related in the recognition of a USD 1.8 million gain.

The main covenants for the bond loan are as follows:
- Maintain book equity of minimum USD 50 million in the parent company.
- Within a calendar year from when the loan was issued, Norse Energy cannot make any dividend payments, shares repurchases, or make any other distributions that constitutes more than 50% of net profits after taxes.
- Total equity shall constitute at least 30% of "Capital employed" in the parent company. "Capital employed" is defined as Norse Energy's total equity plus interest bearing debt, including financial instruments that have the commercial effect of borrowing, including guarantees and leasing commitments.

The Group was in compliance with the loan covenants as of December 31, 2009.

USD 75 million bond loan ("NEC 02")
In 2006, Norse Energy issued USD 75 million five year bond notes. The notes are unsecured, mature on July 14, 2011, with a fixed coupon rate of 6.5% p.a. The effective interest rate is 12% as the value of the warrants and the capitalized transaction costs are amortized over the life of the bonds. The bonds are listed on the OSE under the ticker code "NEC 02".

Subscribers were allocated warrants that give the holders rights to subscribe to one new share in the Norse Energy Corp. ASA at an exercise price of NOK 6.10 per share. The warrants are listed on the OSE under the ticker code "NEC-J".

IAS 39 requires that the proceeds from the issuance of bond loans are split between the long-term loan element and the embedded derivative. In this case the fair value of the option to convert to

shares (the warrants). The long-term loan element is amortized to the full value of the loan over the life of the loan, based on the effective interest rate method. As USD is the functional currency of Norse Energy Corp. ASA and the warrants are denominated in NOK, IFRS requires that the warrants are recorded as a liability and not as a component of equity.

At each reporting date, any change in the fair value of the warrants in recorded in the statement of comprehensive income based on the price of the NECJ warrants. An increase in the fair value of the warrants will cause a charge to the income statement and a corresponding increase in the liability. A decrease in the warrant price will lead to a decrease in the liability. The Group recognized gains of USD 0.7 million and 8.1 million relating to changes in the fair value of the warrants in 2009 and 2008, respectively. These gains do affect amount to be repaid to the bondholders at the maturity date.

As of December 31, 2009, no warrants were converted to shares. The Group holds own bonds totaling USD 1.0 million as of December 31, 2009.

The Group was in compliance with the loan covenants as of December 31, 2009.

USD 8.8 million bond loan ("NEC 03")
In December 2008, the Group issued USD 8.8 million bond notes. The bonds are unsecured, mature in July 2010, with an annual coupon rate of 9.5 %.

The main covenants for these bonds are the same as for the NEC 01 bonds. The Group was in compliance with the loan covenants as of December 31, 2009.

NOK 27.0 million bond loan ("NEC 04")
In September 2008, the Group issued NOK 27 million bond notes. The notes are unsecured, have a four year bullet maturity, with an annual coupon rate of 11.5%.

The main covenants for these bonds are the same as for the NEC 01 bonds. The Group was in compliance with the loan covenants as of December 31, 2009.

USD 17.8 million bond loan ("NEC 05")
In December 2008, Norse Energy issued USD 17.8 million bond notes. The notes are unsecured, have a September 25, 2012 maturity, with an annual coupon rate of 10.707%.

The main covenants for these bonds are the same as for the NEC 01 bonds. The Group was in compliance with the loan covenants as of December 31, 2009.

Brazil financing

In January 2006, Coplex entered into two financing agreements through an on-lending transaction in U.S. Dollars for the development and production of natural gas in the Manati field in the amount of USD 20.0 million. The loans are payable over 72 months, and mature on October 15, 2010. The interest rates are LIBOR plus 5.5 % and LIBOR plus 4.75 % respectively. On December 31, 2009, the total balance of these two obligations was USD 7.1 million. The main loan conditions include pledging of the shares in Coplex, oil in Coral and Estrela do Mar as well as pledge in the gas in BCAM-40. The financial covenants require the company to keep an equity ratio at a minimum of 30 %, and maintaining a debt service coverage ratio in excess of 1.4. Further, it is a condition that Coplex maintains its license rights in Brazil. The agreements also have cross default covenants, meaning that any default of other material agreements for Coplex will lead to a default under these loan agreements.

In April 2007, Norse Energy do Brasil entered into a loan agreement through an on-lending transaction in USD, at the amount of USD 9.8 million, for the acquisition of interest in the Cavalo Marinho and Estrela do Mar fields. The loan is payable over 66 months, and matures in October 2012. The interest is fixed at 9.55 %. On December 31, 2009, the balance of this obligation was USD 12.4 million. The main loan conditions include pledging of the oil in Cavalo Marinho. The financial covenants require the company to keep an equity ratio at a minimum of 30 %, and maintaining a debt service coverage ratio in excess of 1.3. Further, it is a condition that Norse Energy do Brasil maintains its license rights in Brazil. The agreements also have cross default covenants, meaning that any default of other material

agreements for Norse Energy do Brasil will lead to a default under these loan agreements.

In November 2006, Rio das Contas entered into a credit agreement for investment in production and transport of natural gas and condensate from the Manati field in the amount of BRL 82.7 million. The amount was divided into four tranches; (i) BRL 6.7 million; (ii) BRL 60.2 million; (iii) BRL 1.6 million; and (iv) BRL 14.2 million. Tranches (i) and (ii) are amortized over 72 months, and carry an interest rate of currency basket or TJLP plus a fixed rate. Tranches (iii) and (iv) are amortized over 51 months, and also carry an interest rate of either a currency basket or TJLP plus a fixed rate. On December 31, 2009, the balance of this obligation was BRL 50.8 million (USD 29.2 million).

In July 2007, Rio das Contas entered into loan agreements through an on-lending transaction in USD at the amount of USD 7.7 million, for the development of natural gas and condensate in the Manati field. The loans are payable over 53 months, and matures in December 2011. On December 31, 2009, the total balance of these two agreements was USD 3.8 million.

In September 2008, Rio das Contas entered into a loan agreement for a USD 21.4 (BRL 40 million) bridge-loan facility. The bridge loan will be replaced with an approved second BNDES Reais credit facility named BNDES II of which first disbursement is expected to take place during Q2 2010. This credit facility totaling BRL 80.8 million is financing completed exploration drilling, additional infrastructure investments connected to the Manati project, environmental investments and investments in the compressor unit that is planned for 2012.

The credit agreements in Rio das Contas described above require pledging of the shares in Rio das Contas, and the gas revenues from BCAM-40. The financial covenants require the company to keep an equity ratio at a minimum of 30%, and maintain a debt service ratio in excess of 1.3. Further, the agreement requires Rio das Contas to maintain its license rights in Brazil. The agreements also have cross default covenants, similar to those described above.

The company was not in compliance with the loan covenants as of year-end. As a consequence, USD 28.0 million was re-classified from long-term to short-term interest-bearing debt in line with IFRS requirements.

A debt restructuring agreement has been signed for the loans in Brazil, and is being finalized although some last formalities are still remaining before the agreement will be executed. The BNDES II disbursement will replace the current bridge loan and the refinancing agreement with the local banks include a new treasury fund loan that will replace the current loans in Coplex and NEdB as well as the project finance loans described above in Rio das Contas. All loans will be converted into Reais and transferred to Rio das Contas, pledged against Manati cash flow and the shares in Rio das Contas. Brazil will locally remain with three loan agreements in Rio das Contas after all the formalities of the refinancing agreement are in place (BNDES I, BNDES II and Treasury Fund Loan) . Coplex and NEdB will have no local bank debt after this transaction. The BNDES I loan will continue without changes, the BNDES II credit facility is divided into four tranches; (a) BRL 9.8 million; (b) BRL 38.1 million; (c) BRL 32.1 million; and (d) BRL 0.8 million. Tranches (a,c and d) have one year grace period, are then amortized over 96 months and carry an interest rate of TJLP plus a 4.8% fixed rate. Tranche (b) which is to finance investments in the compressor unit has a two year grace period and is then amortized over 96 months, and carry an interest rate of TJLP plus a 5.3 % fixed rate.

The treasury fund loan will have a one year grace period and then be amortized over 48 months and carry an interest of CDI (interbank rate currently at 8.63%) plus 7.5%. The treasury fund loan includes a cash sweep clause that any surplus cash in Rio das Contas will be used to amortize this loan. The cash sweep clause ceases after the treasury fund loan is repaid.

USA financing

The exploration and production business segment has a revolving credit agreement with a bank collateralized by certain assets with a borrowing base of USD 21.8 million. The borrowing base is based on net proven production reserves and the prevailing natural gas prices in the market place. As reserves, production, and the price of natural gas changes, the borrowing base is periodically adjusted. The credit available under the agreement was USD 2.7 million as of December 31, 2009. The credit agreement carries an interest rate ranging from prime to prime plus 0.375% depending on

the utilization of the credit line.

In addition to other nonfinancial covenants, the credit agreement requires the business segment to maintain certain financial covenants. As of December 31, 2009, this business segment failed to comply with certain covenant requirements under the credit agreement which constitutes a pending default, as defined. As such, the balance owed under the credit agreement is being presented as current liabilities.

As of December 31, 2009, the gathering system business segment has a term note payable with a remaining value of USD 5.0 million and an imputed interest rate of 4.25%. The principal and interest are payable quarterly in the amount of USD 0.2 million until September 30, 2015. As a result, of the term, the business segment has recorded USD 0.8 million as current liabilities. The financing agreement is secured by the physical pipeline assets. In addition, Norse Energy Holdings, Inc. has entered into a limited guaranty and surety agreement with the seller on this note payable. As of December 31, 2009 USD 1.0 million of this guaranty remains. After this amount has been repaid, no obligations by Norse Energy Holdings, Inc. USA are due to seller. The business segment was in compliance with the covenants of the term note payable.

Note 18. Asset retirement obligations

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

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

in USD thousands	2009	2008
At January 1	15 824	12 632
Liabilities incurred during the year	18	239
Incurred removal of Coral expenditures	-10 950	-2 261
Changes in estimated obligations	8 242	5 182
Accretion expense	38	32
At December 31	13 172	15 824
Short-term asset retirement obligations	-	10 950
Long-term asset retirement obligations	13 172	4 874

For the year ended December 31, 2009, included in the asset retirement obligation above is USD 12.7 million for Brazil and is based on an appraisal report prepared by the operator of the Manati field's engineers to Agencia Nacional de Petroleo (Petroleum National Agency) regulations. The asset retirement obligations for the US natural gas fields amounted to USD 0.5 million.

The decommissioning of the Coral field was concluded during 2009.

Note 19. Guarantees and pledges

Brazil
Norse Energy Corp. ASA has provided a performance guarantee to the Brazilian petroleum directorate ANP, in terms of which the company is liable for the commitments for Coral, Estrela-do-Mar, Cavalo Marinho, BCAM-40, BM-CAL 5 and Sardinha licenses in accordance with the given concessions for the licenses.

Norse Energy is liable for any default by the other partners in the consortiums, via the participation in the joint operating agreements.

All shares in Coplex and Rio das Contas have been pledged as collateral for the financing of the engagements in Brazil.

In accordance with the loan agreements with one of the lenders, the oil and gas production and the associated cash flow are pledged as collateral for the loan engagements. The future oil production from Cavalo Marinho field is pledged to one of the company's lenders.

Norse Energy Corp. ASA has provided guarantee letters for certain loans that its subsidiaries have in Brazil, totaling USD 6.7 million.

USA
Within the exploration and production business segment an entity has pledged nearly all its assets as security under the credit agreement. The amount of eligible borrowings under the agreement is USD 21.8 million. The net book value of assets pledged under this business segment is USD 113 million. The gathering systems segment has a financing agreement with Columbia Gas which is secured by the physical pipeline asset. In addition, the US parent has a limited guarantee and surety agreement with Columbia Gas for part of the payments due. As of December 31, 2009, a guarantee of USD 1.0 million of the obligation remains. The energy marketing segment has pledged cash accounts as security for letters of credit in the amount of USD 1.3 million.

Note 20. Other commitments and contingent liabilities

Brazil
In the Round 9 exploration blocks (S-M-1035, S-M-1036 and S-M-1100), the work program commitment is related to seismic study and is part of the ANP requirement to be completed three years after the licenses have been awarded. The seismic data was acquired in 2009 with a cost of approximately USD 7.5 million (the Group's share).

The Group has recorded contingent liabilities related to various acquisitions that occurred in 2005 and 2006. These liabilities are contingent upon certain milestones and consist of USD 1.5 million related Cavalo Marinho, USD 4.0 million related to Sardinha and USD 3.0 million related to Estrela-do-Mar.

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

Leasing arrangements
Operating leases relate to leases of office space and various equipment with lease terms of between 1 and 10 years.

Payments recognized as an expense

in USD thousands	2009	2008
Minimum lease payments	2 200	2 142
Contingent rentals	-	-
Sub-lease payment received	-56	-
Total	**2 144**	**2 142**

Non-cancellable operating lease commitments

in USD thousands	2009	2008
Not later than 1 year	1 464	1 463
Later than 1 year and not later than 5 years	2 276	3 363
Later than 5 years	881	1 257
Total	**4 621**	**6 083**

Note 21. Related parties transactions

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

Norway
Norse Energy leases a parking space in Oslo from the CEO for NOK 1,500 per month, equaling approximately USD 2,900 and USD 3,200 in 2009 and 2008, respectively.

Brazil
Norse Energy do Brazil has a long-term note receivable from Kjetil Solbrække – Head of Brazilian operations. Refer to note 7 for details on the terms of this loan

USA
For the year 2009, Norse Energy Holdings, Inc. (NEH) through its' subsidiary NEC USA and Vandermark provided well tending services, technical support, and other expertise to Somerset Production Company (SPC). NEC USA has an 18% interest in SPC. For the year, NEC USA has billed Somerset approximately USD 166 thousand for expense reimbursement, well tending fees and other miscellaneous costs. As of December 31, 2009 NEC USA has a net payable of USD 74 thousand. All transactions are deemed to be negotiated at arm's length.

Norse Energy Corp USA has a long-term note receivable from Øivind Risberg - CEO and Head of US operations. Refer to note 7 for details on the terms of this loan.

Note 22. Financial risk management

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

Financial risk management is carried out by employees in the parent company Norse Energy Corp. ASA in Oslo under policies approved by the Board of Directors. Management of Norse Energy Corp. ASA identifies, evaluates and hedges financial risks in close cooperation with the operating units in Brazil and the USA. The Board of Directors reviews these written principles for overall risk management and the policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, as well as investment of excess liquidity.

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

Liquidity risk
Liquidity risk is the risk that the Group will not be able to meet its obligations as they fall due. Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, the

availability of funding from an adequate amount of committed credit facilities, and the ability to close out market positions. Due to the dynamic nature of our underlying business, parent company management maintains flexibility in funding by maintaining availability under committed credit lines and through the bond market. In addition, management obtains funding through reserve based lending in the US and assets based lending in both the US and Brazil.

Note 12 sets out the maturity profile of the financial liabilities of the Group based on contractual undiscounted payments.

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

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

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

The credit risk of the buyer of gas (Petrobras) to default on the payment is considered to be very low. The credit risks for the sale of natural gas, and sale and purchase of natural gas via the subsidiary Mid American Natural Resources ("MANR") and from the US G&T segment is similarly considered to be low as historically the amount of default of receivables has been very low and the Group has implemented routines to screen its customers. The Group has secured significant guarantees from customers of MANR.

Note 12 sets out the Group's maximum risk exposure.

Market risk
Foreign exchange risk
Norse Energy operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Norwegian Kroner (NOK), the US dollar (USD) and the Brazilian Reais (BRL). Management has set up a policy where group companies are required to manage their foreign exchange risk against their functional currency. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the entity's functional currency.

Norse Energy has investments in foreign operations, whose net assets are exposed to foreign currency translation risk. However, the Group has obtained loans in BRL to mitigate the currency risk arising from the subsidiaries net assets.

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

To manage interest rate risk, management retains a proportion of fixed to floating rate borrowings within limits approved by the Board of Directors. The Group achieves this through obtaining a mix of fixed and floating rate term debt, and by entering into interest rate swaps.

Commodity price risk
The nature of the Group's industry is subject to considerable price volatility, over which we hold little control, and a material decline in commodity prices could result in a decrease in our production revenue. To manage this risk, we strive to keep a balance between fixed and floating price contracts.

NATURAL GAS
The Group has natural gas production both in Brazil and in the US.

In Brazil, a fixed price contract, which is adjusted annually for inflation and with price renegotiation in three years, has been established with Petrobras. This take-or-pay contract has a term related to a minimum and a maximum volume produced. As Petrobras is deemed as a higher creditworthy customer, no further risk management measures are deemed necessary for the natural gas production in Brazil.

In the US, the Group's natural gas production is subject to market price fluctuations. As operator for most all of the US gas production, the Group is also the seller of most all our production. The Group's gas production is not exposed to significant production interruptions outside of potential freeze ups during wintertime or when interstate pipelines, which we transport most all our production, are down for maintenance or we have compression downtime as most of the gas production requires compression for sale.

Due to historical limited downtime, almost all our US gas production is therefore deemed acceptable to use fixed price forward sales contracts to secure certain profits level. These forward contracts can be either physical or financial derivative based. Historically, the Group has been using both the physical and financial markets to secure some of its future production. In general, the Group has a policy to hedge not more than 60% of proven production, which could be increased to 80% in more special circumstances. Currently, any hedging is subject to Board of Directors approval.

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

Note 23. Legal proceedings

Brazil
Norse Energy do Brasil is a party in a lawsuit filed by the Municipality of Cairu- Bahia, against ANP (the Brazilian Petroleum Agency), Petrobras, Queiroz Galvão Oleo & Gas and Brasoil Manati Exploração Petrolífera, in June 2008. The Municipality of Cairu is demanding that the concession agreement is declared invalid and that the royalty is increased from the current rate of 7.5% to 10%. In addition, the municipality claims that the difference of 2.5% is paid with retroactive effect from the startup date. Norse Energy's legal advisors evaluate the risk of financial liabilities associated with this lawsuit as remote. No accrual has been made related to this issue.

The Association of Petrobras Engineers (AEPET) filed a lawsuit against ANP and all companies that bid on concessions in the ANP 3rd Round. The purpose of this lawsuit was to annul the 3rd Bid Round as well as all the concession contracts signed as a result of this bid round. Since Norse Energy's subsidiary Rio das Contas acquired the concessions in BM-CAL 5 & 6 that was granted to Petroserv in this bid round, it was summoned to reply to the lawsuit. Norse Energy evaluates the risk related to this lawsuit to be remote as the arguments used to annul the 3rd Bid Round and signed concession contracts are inconsistent, and are against previous jurisprudences of the Court of the State of Rio de Janeiro. No accrual has been made related to this lawsuit.

Norse Energy's subsidiary Rio das Contas is a party in two lawsuits filed by the Fishermen Association in the Manati Project region demanding indemnification for environmental damages as a result of alleged non-implementation of the compensatory measures established on the Environmental studies and reports part of the Environmental Licensing Process. There was a subsequent request for an injunction to suspend the activities of implementation of the platform, pipeline and all infrastructure related to the project, which was not granted by the Court. Norse Energy evaluates the risk associated with this law suit as remote since the basic argument is that the implementation of the Manati project has caused environmental damages, but throughout the petition there was no indication of a concrete damage. The issuance of the IBAMA Operation License further strengthens the Norse Energy's case. No accrual has been made related to these lawsuits.

Norse Energy subsidiary Coplex Petróleo do Brasil Ltda is under an administrative preceding with the tax authorities regarding PIS (Social Integration Program) and COFINS (Social Securities on Revenues)

levied on financial revenues, which on December 31, 2009, totaled approximately USD 1,0 million. On a first jurisdiction the decision was favorable to Coplex; however a second level judgment is ongoing in order to receive a final decision. Based on the opinion of Norse Energy's legal advisors, the risk of loss is considered remote. Accordingly, no accrual has been made in the financial statements related to this administrative proceeding.

In May 2009, a lawsuit was brought against Norse Energy's subsidiary Coplex Petróleo do Brasil Ltda ias a result of two administrative proceedings with the tax authorities regarding the payment of PIS (Social Integration Program) and COFINS (Social Securities on Revenues), totaling approximately Reais 1.4 million. The taxes under discussion have already been paid. Proofs of the payments were done and a response from the tax authorities is pending.

USA

In May 2008, a lawsuit was brought against NEC USA related to damages suffered to certain real property. The suit contends that NEC USA trespassed onto private property and harvested and removed timber. Damages are sought in the amount of USD 85,000 for the timber and USD 255,000 for treble damages. The case is in the early stages and it is too difficult to determine the likelihood of an unfavorable outcome. Therefore, no liability has been accrued related to this claim.

The US GT segment has legally challenged several of the property tax assessments on the parcels of real property. A majority of the townships have agreed to honor the settlement amounts and maintain the assessments at the settled levels. However, there are five townships that have assessed the real property with an increase. Norse Pipeline is contesting the reassessment and has not accrued for any of the increase in property tax. These reassessments pertain to the 2010 calendar year and accordingly have no impact on 2009's financial results.

Two separate lawsuits have been submitted involving an injury claim to a subcontracted individual of a drilling services company who was injured during drilling operations. In each respective case, the Group was indemnified by the drilling company from any liability for any damages awarded.

Note 24. Subsidiaries

Details of the Group's subsidiaries as of December 31, 2009, are as follows:

Company	Subsidiaries	Place of incorporation and operation	Ownership interest and voting power 12/31/09	12/31/08
Norse Energy Corp. ASA	Norse Energy AS	Norway	100 %	100 %
	Norse Energy Corp. USA	USA	100 %	100 %
	Naftex Energy Corporation	Canada	100 %	100 %
	Norse Energy do Brasil S.A.	Brazil	69,99 %	99,99 %
	Coplex Petroleo do Brasil Ltda.	Brazil	0,01 %	0,01 %
	New Brazil Holding ASA	Norway	100 %	100 %
Naftex Energy Corporation	Naftex Energy (Whitehorse) Limited	Canada	100 %	100 %
	Naftex Energy (Yukon) Limited	Canada	100 %	100 %
Norse Energy do Brasil S.A.	Coplex Petroleo do Brasil Ltda.	Brazil	99,99 %	99,99 %
	Rio das Contas Produtora de Petroleo Ltda	Brazil	57 %	57 %
Coplex Petroleo do Brasil Ltda.	Rio das Contas Produtora de Petroleo Ltda	Brazil	43 %	43 %
Norse Energy Corp. USA	Nornew, Inc.	USA	100 %	100 %
	Nornew Energy Supply, Inc.	USA	100 %	100 %
	Norse Pipeline, LLC	USA	100 %	100 %
	Mid American Natural Resources, LLC	USA	100 %	100 %
	NEC Drilling, LLC	USA	100 %	100 %
	Strategic Energy Corporation	USA	50 %	50 %
Strategic Energy Corporation	MariCo Oil and Gas Corporation	USA	100 %	100 %
Nornew, Inc.	Vandermark Exploration, Inc.	USA	100 %	100 %
NEC Drilling, LLC	Drillco Inc.	USA	100 %	100 %

During the period, the Group disposed of 30% of its interest in Norse Energy do Brasil S.A., reducing its interest to 69.99%. See note 4 for additional details regarding the disposal.

Note 25. Non-controlling interests

in USD thousands	2009	2008
at January 1	-	-
Sale of minority interest in Norse Energy do Brasil S.A. (see note 4)	31 522	-
Share of loss for the year	-3 832	-
Share of other comprehensive income for the year	2 394	-
at December 31	**30 084**	**-**

Note 26. Subsequent events

Towards the end of 2009 Norse Energy initiated a process to demerge the Group. This was approved by an Extraordinary General Meeting in January 2010 and is expected to become effective in June 2010. Norse Energy Corporation ASA will thus become a pure-play independent focusing on unconventional resources in the US, whereas an application has been filed for a separate listing of the Brazilian entity with focus on South Atlantic region. In connection with the proposed demerger, Norse Energy's bondholders approved a restructuring in December 2009. See note 17 for further details regarding the bond restructuring.

January 11, 2010, Norse Energy completed a private placement for a total of 70,588,235 new shares

at NOK 4.25 per share, directed towards Norwegian and international institutional investors. A subsequent repair issue allocating 9,085,350 new shares took place in April 2010.

On March 15, 2010, Norse Energy announced its intention to form a South Atlantic oil and gas independent by merging its Brazilian assets with Pan Petroleum, an oil company focusing on assets in West-Africa. The transaction is expected to be concluded during the first half of 2010, and the new combined company will apply for listing on the Oslo Stock Exchange.

Note 27. 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. Each region (division) has a long standing relation with its certification agents: Gaffney, Cline & Associates in Brazil and Schlumberger Technology Corporation in the US.

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

	1P Reserves (MMBOE)	2P Reserves (MMBOE)
US	**5,8**	**7,2**
Estrela-do Mar	-	5,7
Cavalo Marinho	5,7	14,2
Manati	11,5	15,8
Brazil	**17,2**	**35,7**
Total	**23,0**	**42,9**

During 2009, the Group had the following reserve development:

	2P reserves (MMBOE)
Balance (previous ASR) as of December 31, 2008	43,8
Production 2009	-1,6 (1)
Acquisitions/disposals since previous ASR	1,2
Revision of previous estimates	-0,5
Balance (current ASR) as of December 31, 2009	**42,9**

(1) Brazil 1.2 MMBOE, US 0.4 MMBOE.

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.

Norse Energy Corp. ASA

Parent company financial statements
2009

Parent Company Income Statement

in NOK thousands	Note	2009	2008	2007
Operating income				
Operating revenues	2	3 020	5 789	572
Total operating income		**3 020**	**5 789**	**572**
Operating expenses				
General and administrative expenses	3	29 298	30 966	16 235
Depreciation and impairment	4	419	140	77
Total operating expenses		**29 717**	**31 105**	**16 312**
Operating profit (loss)		**-26 697**	**-25 317**	**-15 740**
Financial items				
Interest received from subsidiaries	2	75 922	50 838	30 546
Other interest income		695	2 793	7 314
Other financial income	6	1 670	4 726	44 971
Currency gain/loss		-66 988	169 632	-38 813
Interest costs	5	-79 480	-71 996	-69 635
Loss on derivatives	6	-	-	-7 114
Impairment of subsidiary	6	-	-4 325	-198 398
Other financial costs	6	-16 685	-9 370	-5 859
Net financial items		**-84 866**	**142 299**	**-236 987**
Result before income tax		**-111 563**	**116 982**	**-252 727**
Income tax expense	7	-	-	-
Result for the year		**-111 563**	**116 982**	**-252 727**

Parent Company Balance Sheet

in NOK thousands	Note	2009	2008
ASSETS			
Non-current assets			
Furniture, fixtures and office equipment	4	467	487
Investment in subsidiaries	8	709 883	521 029
Loan to subsidiaries	2	520 339	710 000
Total non-current assets		**1 230 689**	**1 231 516**
Current assets			
Loan to subsidiaries	2	334 833	508 162
Other current assets		1 901	1 896
Cash and cash equivalents	9	101 535	62 627
Total current assets		**438 269**	**572 685**
TOTAL ASSETS		**1 668 958**	**1 804 202**

Parent Company Balance Sheet

in NOK thousands	Note	2009	2008
EQUITY AND LIABILITIES			
EQUITY			
Paid-in capital			
Share capital		341 863	310 785
Share premium reserve		101 382	1 310
Other paid-in capital		295 605	295 605
Treasury shares		-92	-92
Total paid-in capital		**738 758**	**607 607**
Retained earnings			
Other equity		7 086	118 496
Total retained earnings		**7 086**	**118 496**
TOTAL EQUITY	**10**	**745 844**	**726 104**
LIABILITIES			
Long-term liabilities			
Provision for accruals		-	713
Bond loans	5	550 254	1 033 924
Total long term liabilities		**550 254**	**1 034 637**
Current liabilities			
Accounts payable		537	1 338
Bond loans	5	331 382	-
Other current liabilities		40 941	42 123
Total current liabilities		**372 860**	**43 461**
TOTAL LIABILITIES		**923 114**	**1 078 098**
TOTAL EQUITY AND LIABILITIES		**1 668 958**	**1 804 202**

Oslo, April 29, 2010

Dag Erik Rasmussen Chairman	Bjarte Bruheim Board member	Katherine H. Støvring Board member
Odd Næss Board member	Kathleen Arthur Board member	Øivind Risberg Chief Executive Officer

Parent Company Statement of Cash Flows

in NOK thousands	2009	2008
Cash flows from operating activities		
Net profit (loss) for the year	-111 563	116 982
Depreciation and impairment	419	140
Employee options exercised	153	1 515
Loss on disposal of shares in subsidiary	10 153	-
Change in other assets and liabilities	154 871	-152 887
Net cash flows from operating activities	**54 033**	**-34 250**
Cash flows from investing activities		
Increase in loans to subsidiaries	-226 354	-164 815
Investments in office equipment	-399	-369
Investment in Biofuel Energy ASA	-	-3 300
Proceeds from sale of shares in Biofuel Energy ASA	-	5 500
Proceeds from sale of shares in Norse Energy do Brasil S.A.	194 529	-
Investment in subsidiaries	-1 020	-
Net cash flows from investing activities	**-33 244**	**-162 984**
Cash flows from financing activities		
Proceeds from issuance of long-term debt	-	211 599
Repayment of long-term debt	-5 000	-213 500
Termination of currency swaps	-18 034	74 901
Proceeds from sale of oil put options	-	2 524
Net proceeds from issuance of shares	131 150	1 750
Net cash flows from financing activities	**108 116**	**77 274**
Net increase in cash and cash equivalents	128 905	-119 960
Cash and cash equivalents at the beginning of the year	62 627	156 354
Effects of exchange rate changes on the balance of cash held in foreign currencies	-89 997	26 233
Cash and cash equivalents at the end of the year	**101 535**	**62 627**

Note 1. Accounting principles

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

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

The parent company's annual financial statements are presented in Norwegian Kroner (NOK) which is the currency used for accounting purposes. Shares in subsidiaries and other shares are recorded in Norse Energy Corp. 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. Transactions and balances with subsidiaries

Operating revenues relate to administrative services provided to subsidiaries.

Outstanding loans and balances, including accrued interest, with subsidiaries (denominated in USD) amounted to NOK 855 million and NOK 1,218 million, as of December 31, 2009 and 2008, respectively.

The parent company's loans to the Brazilian subsidiaries Coplex, Rio das Contas and Norse Energy do Brasil, as well as the Norwegian subsidiary Norse Energy AS, are classified as short-term, and amount to USD 58 million (NOK 334 million) as of December 31, 2009, compared to USD 101 million (NOK 710 million) as of December 31, 2008. Loans to Naftex at year-end 2009 and 2008 were written off as recoverability was uncertain.

Loans to Norse Energy Corp. USA amounted to USD 90 million (NOK 520 million) as of December 31, 2009, and are classified as long-term loans. As of December 31, 2008, these loans amounted to USD 73 million (NOK 508 million).

Note 3. General and administrative expenses

Salaries
The Company had 5 employees at December 31, 2009, and an average of 5.5 employees during the year, compared to 6 employees at December 31, 2008 and an average of 5.5 employees during 2008. Wages and salaries for these employees are included in general and administrative expenses.

For details relating to remuneration to CEO Mr. Øivind Risberg and CFO Mr. Anders Kapstad, refer to note 7 in the consolidated financial statements.

The Company has two option programs amounting to a total of 18 million shares, approved by the Annual General Meetings held on May 23, 2006 and May 20, 2008. At the beginning of the year, 9.9 million of these options were granted to key employees, and 6.4 million additional options were granted during 2009. For further details on this program, see note 13 in the consolidated financial statements.

Employee related expenses:

in NOK thousands	2009	2008	2007
Wages	9 546	6 559	4 843
Employer's contribution	1 343	1 340	1 105
Pension costs	644	391	327
Other compensation	-57	1 582	848
Total	11 476	9 872	7 123

Board of Directors remuneration

in NOK thousands	2009	2008	2007
Dag Erik Rasmussen, Chairman (1)	-	-	-
Petter Mannsverk Andresen, former Chairman (1)	350	350	375
Other board members	1 200	900	1 175
Total	1 550	1 250	1 550

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

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 established a pension scheme in 2006 that meet the requirements of that law. In June 2007, the Company changed the pension scheme to a defined contribution scheme. Subsequent to this change, no pension liability is recognized in the balance sheet. Expenses related to the new scheme of NOK 416 thousand and NOK 391 thousand was incurred during 2009 and 2008, respectively.

The actuarial assumptions are based on assumptions of demographical factors normally used within the insurance industry and are in line with current recommendations provided by the Norwegian Accounting Standards Board.

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

in NOK thousands	2009	2008	2007
Deloitte			
Statutory audit	1 092	400	-
Audit related services	558	-	-
Tax services	46	58	-
Other	41	11	-
Ernst & Young			
Statutory audit and audit related services	-	839	1 030
Other	-	-	44
Total	**1 737**	**1 308**	**1 074**

Note 4. Furniture, fixtures and office equipment

in NOK thousands	Furniture and fixtures	IT and office equipment	Total
Acquisition cost at January 1, 2009	310	471	**781**
Investments	365	34	**399**
Aquisition cost at December 31, 2009	675	505	**1 180**
Accumulated depreciation at December 31, 2009	-124	-344	**-468**
Accumulated impairment at December 31, 2009	-188	-57	**-245**
Net carrying value at December 31, 2009	**363**	**104**	**467**
Depreciation for the year	-25	-149	**-174**
Impairment loss for the year	-188	-57	**-245**

During 2009, the Company moved its headquarters from Lysaker to Oslo. As a result, the Company recognized a NOK 245 thousand impairment charge equaling the net carrying value of its furniture and fixtures and related office equipment located at the former headquarters location.

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

Note 5. Bond loans

Restructuring
In December 2009, Norse Energy Corp. ASA received approval from the bondholders for a full restructuring of its bond portfolio by restructuring all of the outstanding bonds, NEC01, NEC02, NEC03, NEC04 and NEC05. The debt obligations will be separated between the US and Brazilian entities. The bond debt restructuring proposal was accepted by bondholders in a bondholder's meeting in December 2009, and will become effective upon the completion of the condition precedents stated in the revised loan agreements, including execution of a number of amendment agreements by the parties thereto and the demerger taking effect before July 1, 2010..

The principal repayments of the loan agreements will be changed to repayment of approximately USD 23 million in 2010, approximately USD 24 million in 2011, USD 56 million in 2012, USD 4 million in 2013 and USD 10 million in 2014. This reduces principal repayments in 2010 by approximately USD 34 million and USD 51 million in 2011. The bondholders are compensated with (amongst others) security by pledge over shares in subsidiaries and intercompany loans, early repayments of 15% of all outstanding bonds, new warrants in the US entity and increased interest coupon.

Existing debt

in NOK thousands	Interest rate	date	Within 1 year	After 1 year	Total
NEC 01 - NOK 286 million bond loan	10% fixed	7/13/2010	280 676	-	**280 676**
NEC 02 - USD 75 million bond loan	6.5% fixed	7/14/2011	-	421 132	**421 132**
NEC 03 - USD 8.8 million bond loan	9.5% fixed	7/6/2010	50 706	-	**50 706**
NEC 04 - NOK 27 callable bond loan	11.5% fixed	9/25/2012	-	26 816	**26 816**
NEC 05 - USD 17.8 million bond loan	10.707%	9/25/2012	-	102 306	**102 306**
Total			**331 382**	**550 254**	**881 636**

NOK 286 million bond loan (“NEC 01”)
In 2005, the Company issued a 5-year senior unsecured bond loan, with a total borrowing limit of NOK 300 million. During 2008, bondholders representing NOK 14 million exchanged bonds in NEC 01 for NEC 04 bonds leaving the balance for NEC 01 at NOK 286 million. The bonds are listed on the Oslo Stock Exchange (OSE) under the ticker “NEC01”. The bonds have a five year bullet maturity, with an annual coupon rate of 10 %.

The Company settled the currency swap agreement relating to NEC 01 in March 2009, which related in the recognition of a NOK 14.9 million gain.

The main covenants for the bond loan are as follows:
- Maintain book equity of minimum USD 50 million in the parent company.
- Within a calendar year from when the loan was issued, The Company cannot make any dividend payments, shares repurchases, or make any other distributions that constitutes more than 50% of net profits after taxes.
- Total equity shall constitute at least 30% of “Capital employed” in the parent company. “Capital employed” is defined as the Company's total equity plus interest bearing debt, including financial instruments that have the commercial effect of borrowing, including guarantees and leasing commitments.

The Company was in compliance with the loan covenants as of December 31, 2009.

The interest from this loan amounted to approximately NOK 29 million in 2009.

USD 75 million bond loan (“NEC 02”)
In 2006, the Company issued USD 75 million five year bond notes. The notes are unsecured, mature on July 14, 2001, with a fixed coupon rate of 6.5% p.a. The effective interest rate is 12% as the value of the warrants and the capitalized transaction costs are amortized over the life of the bonds. The bonds are listed on the OSE under the ticker code “NEC 02”.

Subscribers were allocated warrants that give the holders rights to subscribe to one new share in the Norse Energy Corp. ASA at an exercise price of NOK 6.10 per share. The warrants are listed on the OSE under the ticker code “NECJ”.

In accordance with NGAAP, the bond loan is recorded net of capitalized transaction costs. These transaction costs will be amortized over the loan period. As of December 31, 2009, the loan amounted to approximately NOK 433 million.

The Company was in compliance with the loan covenants as of December 31, 2009.

The interest from this loan amounted to approximately NOK 30 million in 2009.

USD 8.8 million bond loan (“NEC 03”)
In December 2008, the Company issued USD 8.8 million bond notes. The bonds are unsecured, mature in July 2010, with an annual coupon rate of 9.5 %.

The main covenants for these bonds are the same as for the NEC 01 bonds. The Company was in

compliance with the loan covenants as of December 31, 2009.

The interest from this amount amounted to approximately NOK 5 million in 2009.

NOK 27.0 million bond loan ("NEC 04")
In September 2008, the Company issued NOK 27 million bond notes. The notes are unsecured, have a four year bullet maturity, with an annual coupon rate of 11.5%.

The main covenants for these bonds are the same as for the NEC 01 bonds. The Company was in compliance with the loan covenants as of December 31, 2009.

The interest from this amount amounted to approximately NOK 3 million in 2009.

USD 17.8 million bond loan ("NEC 05")
In December 2008, the Company issued USD 17.8 million bond notes. The notes are unsecured, have a September 25, 2012 maturity, with an annual coupon rate of 10.707%.

The main covenants for these bonds are the same as for the NEC 01 bonds. The Company was in compliance with the loan covenants as of December 31, 2009.

The interest from this amount amounted to approximately NOK 12 million in 2009.

Note 6. Other financial income and costs, loss on derivatives and impairment of subsidiary

in NOK thousands	2009	2008	2007
Oil put options	-	2 524	-
Revus forward contract	-	-	44 100
Sale of Biofuel shares	-	2 140	-
Gain on purchase of treasury bonds	1 563	-	-
Other	107	62	871
Total	**1 670**	**4 726**	**44 971**
Oil put options	-	-	7 114
Loss on derivates	**-**	**-**	**7 114**

During 2009, the Company purchase treasury bonds resulting in a gain of NOK 1.6 million.

In 2009, the Company sold 30% of the shares in its subsidiary Norse Energy do Brasil for a cash consideration of USD 30 million. The buyer was Sector Speculare (Private Equity) IV, a fund managed by Sector Omega ASA ("Sector"). Funds managed by Sector are also the largest shareholder in Norse Energy Corp. ASA. The transaction valued Norse Energy do Brasil at an enterprise value of USD 210 million. Included in this amount was debt of approximately USD 43 million to the parent company Norse Energy Corp ASA. As a result, the Company recognized a loss of approximately USD 2.9 million (NOK 10.1 million), which is included in other financial costs. The USD 10 million loan from clients of Sector Asset Management early in the second quarter was repaid with proceeds from the sale of shares.

The shares in Biofuel Energy were sold during 2008, resulting in a gain of NOK 2.1 million. See note 12 for further details. The remaining oil put options were settled in late 2008, and resulted in a total gain of NOK 2.5 million. Following this sale, the Company does not hold any oil put options.

The Revus forward contract was settled in the beginning of 2007 and resulted in a net gain for the year of NOK 44.1 million.

The impairment of subsidiary in 2007 of NOK 198 million is related to Norse Energy's investment in Naftex (NOK 189 million) and a receivable from Naftex (NOK 9 million). Following this impairment charge, the carrying amount of the investment in and receivable on Naftex was NOK 0. For 2008, an impairment charge related to a receivable on Naftex of NOK 4 million was recognized in the income statement.

Refer to note 12 in the consolidated financial statements for details on the derivatives above.

Other financial costs are specified as follows:

in NOK thousands	2009	2008	2007
Amortization of capitalized loan transaction costs	5 820	8 658	5 574
VPS charges	546	618	398
Loss on disposal of shares in Norse Energy do Brasil S.A. (note 4)	10 153	-	-
Other	166	94	-113
Total	**16 685**	**9 370**	**5 859**

Note 7. Income tax

Income tax expense for the year:

in NOK thousands	2009	2008	2007
Tax payable	-	-	-
Change in deferred tax	-	-	-
Income tax expense	**-**	**-**	**-**

Specification of the basis for tax payable:

in NOK thousands	2009	2008	2007
Result for the year	-111 563	116 982	-252 727
+ Effect of permanent differences	981	753	145 643
+ Effect of temporary differences	110 582	-117 735	107 084
Basis for tax payable	**-**	**-**	**-**

Specification of deferred tax:

in NOK thousands	2009	2008	2007
Furniture, fixtures and office equipment	-68	121	104
Accounts receivable	-12 690	-13 604	-9 279
Financial instruments	7 827	-17 268	56 240
Pensions and other accruals	-775	-775	-726
Tax losses carried forward	-882 280	-743 739	-939 339
Basis for calculating deferred tax asset	-887 986	-775 265	-893 000
Calculated deferred tax asset (28%)	248 636	217 074	250 040
Deferred tax asset allowance	-248 636	-217 074	-250 040
Deferred tax asset recognized in the balance sheet	**-**	**-**	**-**

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

Note 8. Investment in subsidiaries

Investments in subsidiaries are booked at the lower of cost and fair market value. As of December 31, 2009, the holdings in subsidiaries consist of the following:

in NOK thousands, unless otherwise indicated

Company	Headquarters	Ownership interest and voting rights	Carrying value
Norse Energy Corp. USA	Buffalo, NY, USA	100 %	234 218
Norse Energy do Brasil S.A.	Rio de Janerio, Brazil	69,99 %	474 541
Norse Energy AS	Oslo, Norway	100 %	100
Coplex Petroleo do Brasil Ltda.	Rio de Janerio, Brazil	0,01 %	4
Naftex Energy Corporation	Vancouver, Canada	100 %	-
New Brazil Holding ASA	Oslo, Norway	100 %	1 020
Total			**709 883**

Norse Energy do Brasil S.A. has a 99.99% ownership interest and voting rights in Coplex Petroleo do Brasil Ltda.

Note 9. Cash and cash equivalents

As of December 31, 2009, NOK 0.5 million is restricted cash related to tax withheld from employees.

Note 10. Shareholders equity and shareholder information

Nominal share capital in the parent company at December 31, 2009 amounted to NOK 341,863,263, consisting of 388,480,981 shares at a par value of NOK 0.88.

The table below shows the changes in equity in the Company during 2008 and 2009:

in NOK thousands	Share capital	Share premium	Other paid-in capital	Treasury shares	Other equity	Total
Equity at January 1, 2008	310 345	295 605	-	-92	-	**605 858**
Share premium reduction	-	-295 605	295 605	-	-	**-**
Employee stock option expense	-	-	-	-	1 515	**1 515**
Stock options exercised	440	1 310	-	-	-	**1 750**
Result for the year	-	-	-	-	116 982	**116 982**
Equity at December 31, 2008	**310 785**	**1 310**	**295 605**	**-92**	**118 496**	**726 104**
Share issue, September 2009	31 078	104 890	-	-	-	**135 968**
Share issue costs (net of tax effect)	-	-4 818	-	-	-	**-4 818**
Employee stock option expense	-	-	-	-	153	**153**
Result for the year	-	-	-	-	-111 563	**-111 563**
Equity at December 31, 2009	**341 863**	**101 382**	**295 605**	**-92**	**7 086**	**745 844**

Treasury shares
At December 31, 2009, the Company held 104,605 treasury shares, with a nominal value of NOK 92,052.

Ownership structure
The Company had 5,038 shareholders at December 31, 2009. The twenty largest shareholders at year-end were:

Shareholder	Number of shares	Holding in %
GOLDMAN SACHS INT. - EQUITY -	72 108 008	18,56 %
UBS AG, LONDON BRANCH	34 866 219	8,98 %
NORDEA BANK NORGE ASA (1)	14 223 582	3,66 %
BRUHEIM (1)	11 300 000	2,91 %
VIKSUND AS (3)	8 050 500	2,07 %
DNB NOR SMB	7 300 000	1,88 %
SOLODDEN AS (3)	6 561 394	1,69 %
WESTCAP A/S	5 190 200	1,34 %
NESTOR SHIPPING AS (2)	4 389 000	1,13 %
FARSTAD	3 900 616	1,00 %
DANSKE BANK A/S	3 529 006	0,91 %
PACTUM AS	3 500 000	0,90 %
WILHELMSEN LINES SHIPOWNING AS	3 000 000	0,77 %
SAF INVEST AS	3 000 000	0,77 %
NORDNET BANK AB	2 832 785	0,73 %
CITIBANK N.A. (LONDON BRANCH)	2 820 100	0,73 %
TYRHOLM & FARSTAD A/S	2 529 616	0,65 %
MP PENSJON	2 489 600	0,64 %
NORDEA BANK DENMARK AS	2 357 127	0,61 %
VARMA MUTUAL PENSION INSURANCE	2 136 286	0,55 %
Top 20 Shareholders	**196 084 039**	**50,47 %**
Other shareholders	192 396 942	49,53 %
Total shares	**388 480 981**	**100,00 %**

(1) Owned by Bjarte Bruheim.
(2) Owned by Odd Næss.
(3) Owned by Øivind Risberg.

Shares owned by the CEO and board members, directly and indirectly, at December 31, 2009:

Shareholder	Position	# of shares	% of total
Bjarte Bruheim	Director, Norse Energy Corp. ASA	25 300 000	6,51 %
Odd Næss	Director, Norse Energy Corp. ASA	7 565 000	1,95 %
Øivind Risberg	CEO, Norse Energy Corp. ASA	14 611 894	3,76 %

In addition, Mr. Risberg holds 1,445,218 warrants in the Company.

Shareholder distribution at December 31, 2009:

Amount of shares	# of shareholders	% of total	# of shares	Holding in %
1 - 1000	505	10,02 %	285 547	0,1 %
1 001 - 5 000	1 596	31,68 %	4 565 910	1,2 %
5 001 - 10 000	986	19,57 %	8 170 894	2,1 %
10 001 - 100 000	1 596	31,68 %	55 988 034	14,4 %
100 001 - 1 000 000	309	6,13 %	86 036 044	22,1 %
1 000 001 +	46	0,91 %	233 434 552	60,1 %
Total	**5 038**	**100,00 %**	**388 480 981**	**100,0 %**

See note 13 to the consolidated financial statements for the Company's option scheme and granted options.

Note 11. Guarantee liabilities

Norse Energy Corp. ASA has provided a performance guarantee to the Brazilian petroleum directorate ANP, in terms of which the Company is liable for the commitments for Coral, Estrela-do-Mar, Cavalo Marinho, BCAM-40, BM-CAL 5 and Sardinha licenses in accordance with the given concessions for the licenses. The guarantee is unlimited.

Norse Energy Corp. ASA is liable for any default by the other partners in the consortiums, via the participation in the joint operating agreements.

The parent company has provided guarantee letters for certain loans that its subsidiaries have in Brazil, totaling USD 6.7 million.

See also further details about financial and market risk in note 22 to the consolidated financial statements.

Note 12. Related parties

The Company leases a parking space in Oslo from the CEO for NOK 1,500 per month, equaling approximately NOK 18 thousand and NOK 18 thousand in 2009 and 2008, respectively.

In early 2007, the company received 200 000 shares in Biofuel Energy ASA ("Biofuel") as payment for services rendered. The chairman of the Board in Norse Energy, Petter Mannsverk Andresen, was at the time also the CEO of Biofuel Energy ASA. During 2008, the company purchased another 300 000 shares in Biofuel in a public offering for NOK 11 per share. Following the public offering, the company sold all 500 000 shares to Øivind Risberg, the CEO of Norse Energy, at the same price – NOK 11 per share.

Note 13. Financial market risk and business risk

See details in note 22 in the consolidated financial statements.

Note 14. Subsequent events

Towards the end of 2009 Norse Energy initiated a process to demerge the Group. This was approved by an Extraordinary General Meeting in January 2010 and is expected to become effective in June 2010. Norse Energy Corporation ASA will thus become a pure-play independent focusing on unconventional resources in the US, whereas an application has been filed for a separate listing of the Brazilian entity with focus on South Atlantic region. In connection with the proposed demerger, Norse

Energy's bondholders approved a restructuring in December 2009. See note 17 for further details regarding the bond restructuring.

January 11, 2010, Norse Energy completed a private placement for a total of 70,588,235 new shares at NOK 4.25 per share, directed towards Norwegian and international institutional investors. A subsequent repair issue allocating 9,085,350 new shares took place in April 2010.

On March 15, 2010, Norse Energy announced its intention to form a South Atlantic oil and gas independent by merging its Brazilian assets with Pan Petroleum, an oil company focusing on assets in West-Africa. The transaction is expected to be concluded during the first half of 2010, and the new combined company will be separately listed on the Oslo Stock Exchange.

Deloitte.

Translation from the original Norwegian version

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

AUDITOR'S REPORT FOR 2009

We have audited the annual financial statements of Norse Energy Corp. ASA as of 31 December 2009, showing a loss of NOK 111.563.000 for the parent company and a loss of USD 22.308.000 for the group. We have also audited the information in the Board of Directors' report concerning the financial statements, the going concern assumption, and the proposal for coverage of the loss. The annual financial statements comprise the parent company's financial statements and the group accounts. The parent company's financial statements comprise the balance sheet, the statements of income and cash flows and the accompanying notes. The rules of the Norwegian Accounting Act and generally accepted accounting practice in Norway have been applied to prepare the parent company's financial statements. The group accounts comprise the statement of financial position, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the accompanying notes. International Financial Reporting Standards as adopted by the EU have been applied to prepare the group accounts. These financial statements are the responsibility of the Company's Board of Directors and Managing Director. Our responsibility is to express an opinion on these financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

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

In our opinion,

- the parent company's financial statements are prepared in accordance with law and regulations and give a true and fair view of the financial position of the Company as of 31 December 2009, and the results of its operations and its cash flows for the year then ended, in accordance with generally accepted accounting practice in Norway
- the group accounts are prepared in accordance with law and regulations and give a true and fair view of the financial position of the Group as of 31 December 2009, and the results of its operations and its cash flows and the changes in equity for the year then ended, in accordance with International Financial Reporting Standards as adopted by the EU
- the Company's management has fulfilled its duty to see to proper and well arranged recording and documentation of accounting information in accordance with law and generally accepted bookkeeping practice in Norway
- the information in the Board of Directors' report concerning the financial statements, the going concern assumption and the proposal for coverage of the loss, is consistent with the financial statements and complies with law and regulations.

Oslo, 29 April 2010
Deloitte AS

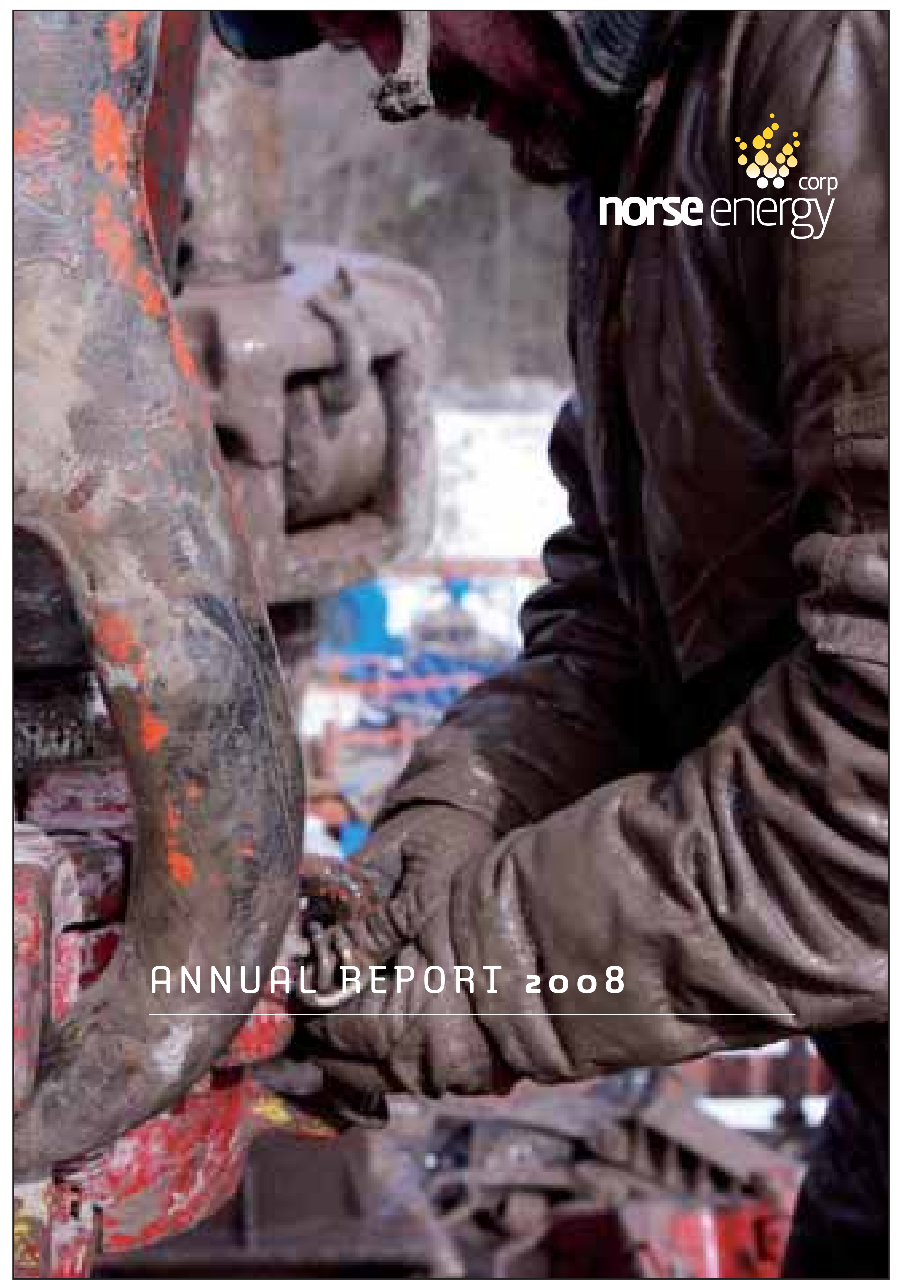
Ingebret G. Hisdal
State Authorised Public Accountant (Norway)

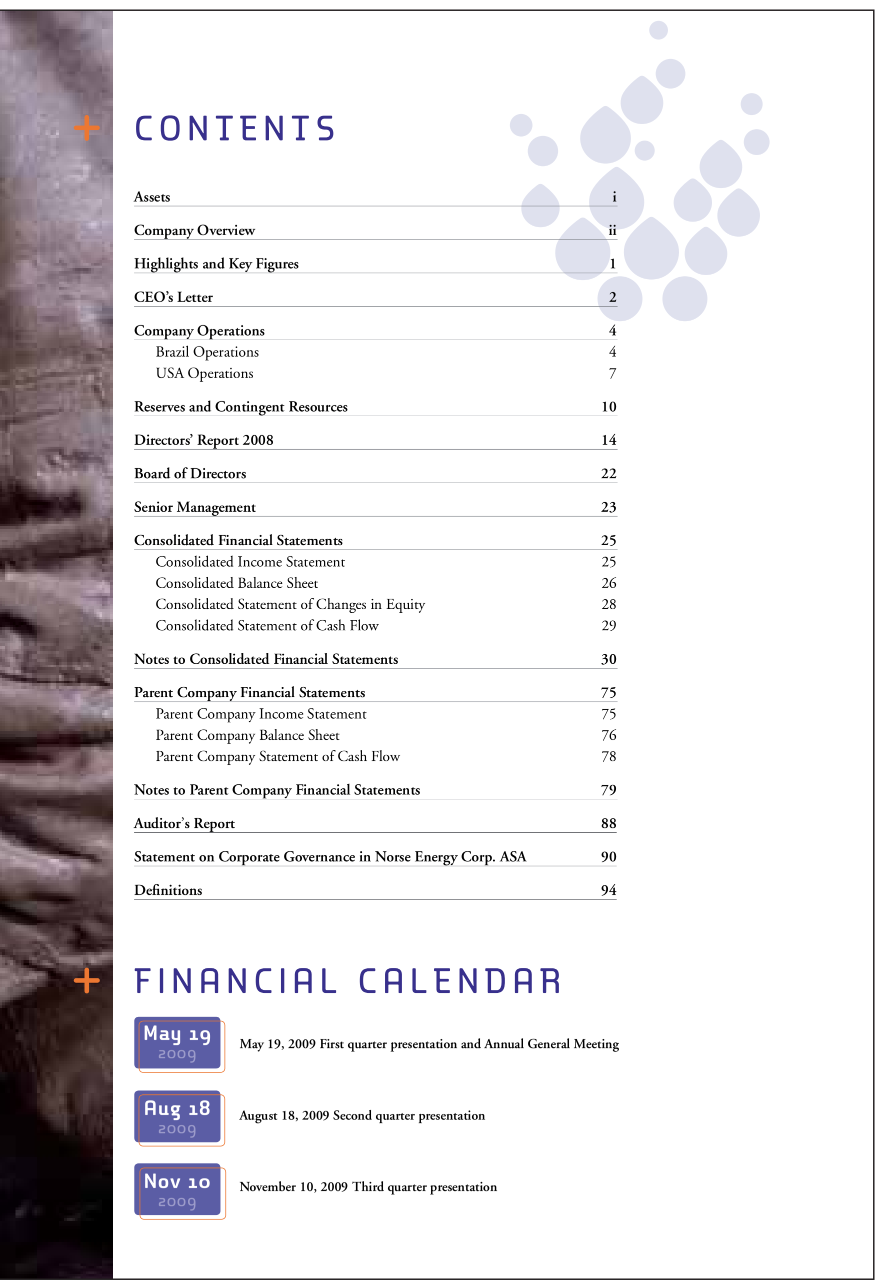
Directors' responsibility statement 2009

We confirm to the best of our knowledge that the financial statements for the period January 1 to December 31, 2009, 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 29, 2010

Dag Erik Rasmussen Chairman	Bjarte Bruheim Board member	Katherine H. Støvring Board member
Odd Næss Board member	Kathleen Arthur Board member	Øivind Risberg Chief Executive Officer





CONTENTS

Assets	i
Company Overview	ii
Highlights and Key Figures	1
CEO's Letter	2
Company Operations	4
Brazil Operations	4
USA Operations	7
Reserves and Contingent Resources	10
Directors' Report 2008	14
Board of Directors	22
Senior Management	23
Consolidated Financial Statements	25
Consolidated Income Statement	25
Consolidated Balance Sheet	26
Consolidated Statement of Changes in Equity	28
Consolidated Statement of Cash Flow	29
Notes to Consolidated Financial Statements	30
Parent Company Financial Statements	75
Parent Company Income Statement	75
Parent Company Balance Sheet	76
Parent Company Statement of Cash Flow	78
Notes to Parent Company Financial Statements	79
Auditor's Report	88
Statement on Corporate Governance in Norse Energy Corp. ASA	90
Definitions	94

FINANCIAL CALENDAR

May 19 2009 — May 19, 2009 First quarter presentation and Annual General Meeting

Aug 18 2009 — August 18, 2009 Second quarter presentation

Nov 10 2009 — November 10, 2009 Third quarter presentation

ASSETS IN BRAZIL

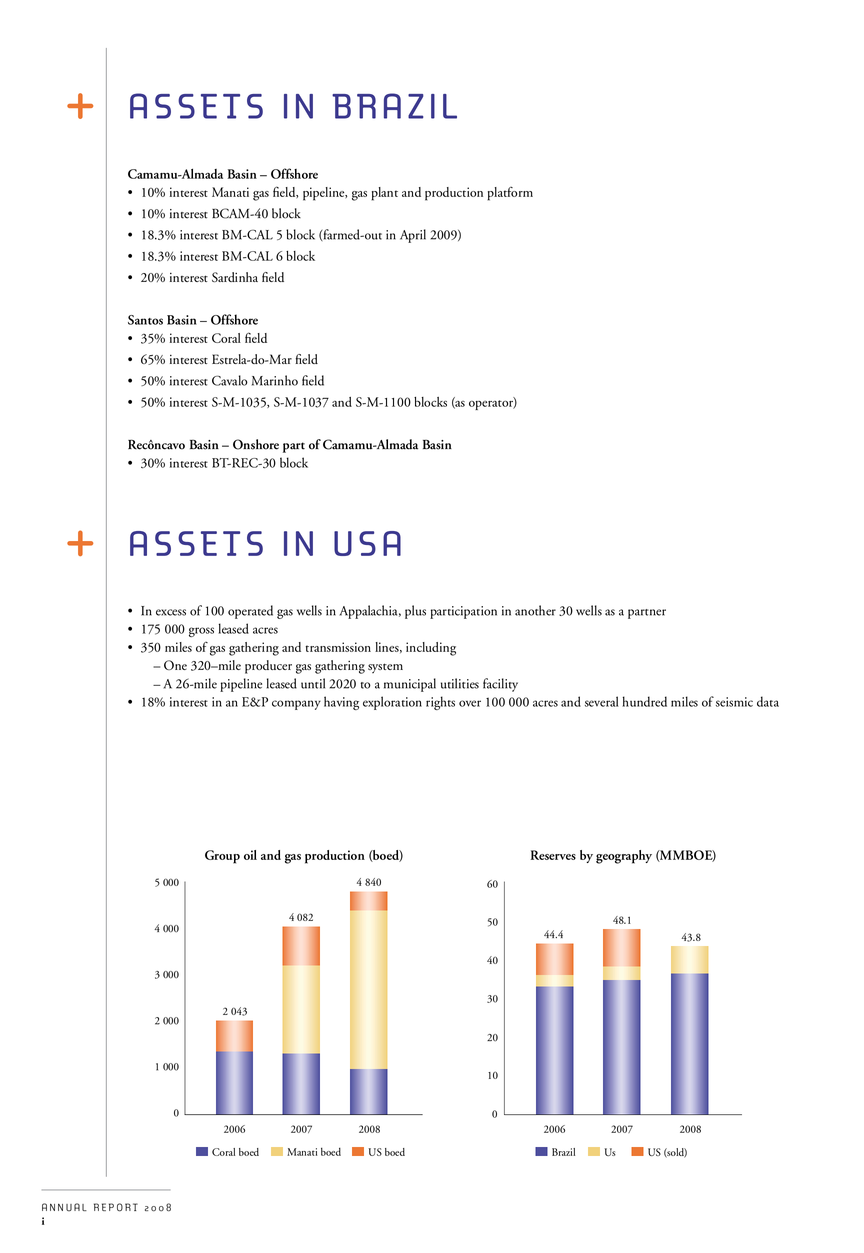
Camamu-Almada Basin – Offshore
- 10% interest Manati gas field, pipeline, gas plant and production platform
- 10% interest BCAM-40 block
- 18.3% interest BM-CAL 5 block (farmed-out in April 2009)
- 18.3% interest BM-CAL 6 block
- 20% interest Sardinha field

Santos Basin – Offshore
- 35% interest Coral field
- 65% interest Estrela-do-Mar field
- 50% interest Cavalo Marinho field
- 50% interest S-M-1035, S-M-1037 and S-M-1100 blocks (as operator)

Recôncavo Basin – Onshore part of Camamu-Almada Basin
- 30% interest BT-REC-30 block

ASSETS IN USA

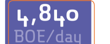
- In excess of 100 operated gas wells in Appalachia, plus participation in another 30 wells as a partner
- 175 000 gross leased acres
- 350 miles of gas gathering and transmission lines, including
  – One 320–mile producer gas gathering system
  – A 26-mile pipeline leased until 2020 to a municipal utilities facility
- 18% interest in an E&P company having exploration rights over 100 000 acres and several hundred miles of seismic data



COMPANY OVERVIEW

Norse Energy Corp. ASA, through its subsidiaries, is engaged in oil and natural gas exploration and production with operations in the US and Brazil. In addition to its E&P assets, Norse Energy owns and operates pipeline systems in the northern Appalachian Basin of the US for gathering and transmission of natural gas, and provides energy marketing services to Appalachian end users and producers. The company is a Norwegian publicly traded company, listed on the Oslo Stock Exchange under the ticker symbol NEC.

2008 HIGHLIGHTS

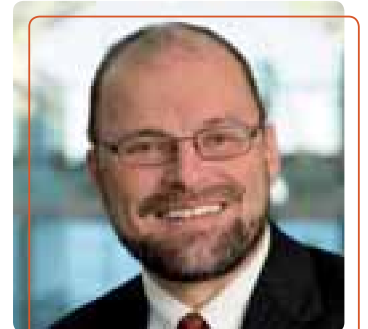


4,840 BOE/day	Average production – a new record
43.77 MMBOE	Certified 2P reserves
377 MMBOE	Certified 2C contingent resources – an 860% increase
USD 41 million	EBITDA – a record high
USD 67 million	Sales price of US Medina field assets
6,000 Mcf/day	US production at the end of the year, replacing the production sold earlier in the year
37	Number of wells drilled in the US
6 of 6	Manati gas wells producing throughout the entire year
USD 15 million	Secured in revolving credit facility

KEY FIGURES

	2008		2007		2008		2007
Revenues (USD million)	334.5	↑	214.7	2P Reserves (MMBOE)	43.77	↓	48.12
EBITDA (USD million)	41.2	↑	26.8	2C Contingent resources (MMBOE)	376.71	↑	39.26
EBIT (USD million)	-1.4	↑	-28.3	Production (BOE/day)	4,840	↑	4,082
Net profit/loss (USD million)	-10.5	↑	-28.7	Stock Price per 12/31 (NOK)	3.54	↓	4.56

CEO´S LETTER



Dear shareholders,
In 2008 we invested about USD 100 million in exploration and development activities in our US and Brazilian business. We closed the year with the highest production in the history of the company, record high generation of resources, Schlumberger certified 2C of 2 Tcf (346 MMBOE) in the US and in Brazil Gaffney Cline & Associates certified 2C of 30.50 MMBOE, and a solid USD 41 million EBITDA.

Even with this success, we acknowledge that 2008 is more likely to be remembered for the global financial turmoil and the collapse in commodity prices towards the end of the year. As a result, our shareholders experienced high volatility, with share values declining significantly from an all-time-high in a matter of months. Market volatility and the credit crunch will pose challenges also in 2009 and possibly for the years to come.

Our focus need to remain on the value drivers we can influence, such as converting resources to reserves and optimizing financial flexibility. We believe the 21st century will be the age of natural gas and have transformed our company's activities accordingly, especially in the US. We are now a natural gas producer in both Brazil and the US, with long lived reserves and large resource bases in both regions.

Our production growth, due to the success of the Herkimer play, is anticipated to more than double in 2009, in addition to working on converting our 2 Tcf contingent resources into reserves. Growing our business will be challenged by our financial flexibility and the ability to build a larger organization.

In Brazil, our aim is to continue the ongoing structural processes and continue to develop our 100+ MMBOE BS-3 integrated Santos project. Our 2008 offshore drilling program commenced at a time with high drilling costs, in addition to a non-functioning equity market, this resulted in financial challenges for the company.

Net of asset sales, which are integral to our strategy, we have invested USD 166 million over the past four years as a public company. Let us look at what we have accomplished:

	2004	2008
Production (BOE)[1]	740,824	1,766,600
Reserves 2P (MMBOE)	14	44
Resources (MMBOE)	-	376
EBITDA (USD million)	0.7	41.2

1 Production sales, net of retainage

Main highlights for the US operations in 2008;

- Divested the gas producing Medina assets (4,300 Mcf/day) for USD 67 million
- Replaced divested production and reached 6,000 Mcf/day by the end of December 2008
- Drilled 37 wells, of which 19 horizontal, making us the most active horizontal driller in New York State
- Increased land position to 175,000 acres
- Continued to build on our geological confidence in the Herkimer formation, which we believe could yield some 500 Bcf (90 MM-BOE) of natural gas
- Established Norse Energy as a "3-in-1 play", with our Mar cellus, Utica shale in addition to the Herkimer formation all present on large portions of our acreage
- Schlumberger certified 2P reserves of 33 MMBOE and 2C contingent resources of 346 MMBOE.

Our focus in 2008 has been on the Herkimer formation which so far has exceeded expectations. Multiple wells are producing more than 1,000 Mcf/day and we have seen wells producing in the vicinity of 3,000 Mcf/day. This far exceeds our 2009 budgeted average of 300 Mcf/day for the 25 horizontal wells we plan to drill this year. Our F&D cost is very competitive, at around USD 1 per Mcf.

We have been tailoring our activity level to prioritize near-term cash flow with corresponding increase in funding availability through reserve based lending. Our production guidance of 12,000 Mcf/day (2,100 BOE/day) towards the end of 2009 would represent a doubling of the volume from year-end 2008.

We have strengthened our organization and geosciences staff and land position over the past years, and I am quite confident that our US division will produce exciting results for our shareholders in the years to come. We are now streamlining

our operation into two offices in Pittsburgh and Buffalo. This important step should provide for more cost efficient operations and allow for a more dynamic work environment.

Main highlights for the Brazil operations in 2008;

- The Manati gas field produced from all six wells. Manati has a long term guaranteed sales contract from this field containing more than 1 Tcf, of which Norse Energy owns 10%.
- The Coral oil field commenced abandonment.
- Active exploration program.
- BS-3 integrated Santos Basin field studies conducted with the help of a 3rd party engineering company.

In Brazil, we have been working on structural opportunities, including an IPO attempt and multiple private placement and divestiture processes, in order to strengthen the balance sheet of the company and secure financial flexibility to develop our Santos Basin assets. However, the sharp drop in oil prices, weak equity markets and a generally weaker investment climate made this a challenging process. Our active exploration program unfortunately has not yielded the commercial results we hoped for, which negatively impacted our 2008 financial statements. Following the recent farm-out of BM-CAL 5, we have reduced our capital commitments and significantly limited our future exploration exposure.

Despite the lack of exploration success, I remain enthusiastic about Brazil and the opportunities we have seen during our short presence. Brazil is an underexplored energy region, and the world class discoveries seen in 2008 may only be the beginning. I see a great future for Brazil as an energy nation, and I believe our position in the Santos Basin, especially our development assets such as the 100+ MMBOE BS-3 project, provides a major opportunity as an early entrant in this underexplored basin. I see multiple opportunities to develop small to medium-sized fields in this basin which is a good fit for our company's size and future strategy.

Looking forward, the main challenge will be access to capital in light of the international credit crunch. However, we are positioned in two of the most promising energy regions in the world, offshore Brazil and onshore USA. Our entrepreneurial and dynamic organization makes me optimistic that we can timely execute on our numerous opportunities.

I wish you all the best for 2009 and the years to come. I would also like to thank our Board members for their dedication and significant progress we have made together in 2008. I am also very proud of all our employees both in US, Brazil and Norway, who have worked under very challenging conditions in 2008. The employees have responded with their dedication, support, and caring for Norse Energy.

Best regards, and thanks for your support,

Øivind Risberg
Chief Executive Officer

+ COMPANY OPERATIONS

Brazil Operations highlights
2008 was a volatile year with several important events for Norse Energy in Brazil. The Manati gas field increased and stabilized the production. The facilities have been successfully tested to be able to produce up to 7 MMm3/d, and average production increased 78% compared to 2007, to a total of 5.7 MMm3/d (about 35,000 BOE/d to 100% of the field). The field is producing according to expectations and the six wells drilled so far are sufficient to supply the existing gas contract. The BCAM-40 license where Manati is located also received IBAMA licenses in 2008 to drill three prospects, Cravo, Dende and Canela. Cravo was spudded in early Q1 2009 and completed in early April 2009, but was not considered commercial.

In Santos the Coral field produced above the expectations as a result of using well number five for water injection. The water injection in Coral made the field produce on average 984 BOE/d in 2008, a 25% reduction from 2007. The unexpected high production coupled with high oil prices during the year generated good cash flow. In December the water cut intensified and became too high to continue operations and it was decided to commence abandonment. The company expects that there is still a significant volume left in the reservoir, enough to justify a redevelopment of the field, in conjunction with a development of the other fields in the area (BS-3 integrated). The positive experience with the water injection has been very important for the understanding of the reservoir quality and the upsides by applying water injection as a drive mechanism for the fields in the area. In 2008 Norse Energy concluded to perform our own studies of the potential in the area independent of the operator. The studies resulted in substantial increase in the contingent resources in the area from 2 MMBOE to 25 MMBOE (best estimate), later verified by the independent engineering Company Gaffney Cline. Furthermore the base case for the development is to develop all fields in the area simultaneously in order to reduce the opex and capex per barrel. Norse Energy has shown in these studies the feasibility of the technical solutions for tie back of all the Norse-fields in the area to one common set of infrastructure. Break even rates after tax indicates less than USD 50 /bbl required to make an economical integrated development. This is based on Norse Energy's studies verified by Gaffney Cline.

In the recently acquired 50% ownership exploration blocks in Santos, operated by Norse Energy, a contract to acquire 3D seismic is agreed in principal with Petroleum Geo-Services (PGS). Currently the consortium is evaluating the timing of this activity. The blocks have two identified and well defined structures that are located in an area where Petrobras recently did a new discovery.

CAMAMU-ALMADA BASIN
Manati project (10% interest)
The Manati gas field has been online with all six wells for the entire 2008. Average daily gas and condensate sales were 3,437 BOE/day compared to 1,908 BOE/day in 2007, an increase of 80%. However, the field did not attain its full production capacity due to local gas market weakness observed in the 4Q 2008. Investments were made in order to connect the Manati infrastructure to the pipeline to the northeastern market in Brazil These investments were made in order to be positioned for increased gas production in the future. In addition, the consortium invested in a living quarter on the Manati production platform, mainly for safety reasons. Finally, the consortium continued its studies of the engineering project for the compression system.

Brazilian basins where Norse Energy has assets

The company's share of the Manati field certified 2P reserves as of December 31, 2008 is 16.65 MMBOE, down 2.5% from last year. Reduced Manati reserves over the year reflect the produced volumes and some redistribution of reserves between categories reflecting effects of observed production performance. Further these reserves are only committed reserves under the take and pay contract. The company anticipates ultimate recoverable reserves to exceed the current gas contract volume.

Work is in progress by the operator to review the geological model of the Manati field, including a possible northern extension of the field. To drain this area a 7th well might be needed. Manati reserves are currently based on the six wells and the reserve estimate is based on the contracted volume to the gas purchaser.

BCAM-40 exploration block (10% interest)
The BCAM-40 block consists of the Manati gas field and more than 530 square kilometers (130,000 acres) of exploration acreage covering both shallow and deepwater areas. There are three remaining exploration prospects in BCAM-40 Cravo, Dendê and Canela. In addition there are several leads that may be drilled given an extension of the license period.

In August 2007, the consortium received the environmental license for the Gengibre well, the first of four exploration wells originally planned to be drilled within the BCAM-40 block. Presence of light oil was found, but the finds were not deemed to be commercial. However, the Gengibre results have confirmed the existence of an active petroleum system in the BCAM-40 block, with oil generation and migration capacity as well as good quality reservoir rocks.

The environmental licenses for Cravo, Dendê and Canela were issued late 2008. Cravo was spudded on January 6, 2009. The prospect is located at 270 meters of water depth, only 18 km northeast of the Manati production platform. The well reached a total depth of about 4,000 meters, with the main objective in the Sergi formation. In accordance with the operator's obligations towards ANP, the operator on January 27, 2009, notified the Brazilian Regulatory Agency (ANP) about hydrocarbon indications on the Cravo prospect below 1 581 meters of depth. The well was completed in early 2009 and the well was logged and the logs showed that the Rio das Contas sandstone reservoir had eight meters net thickness with gas, but the main target in the Sergi sandstone was water bearing.

However, the Sergi reservoir had 50 meter sandstone with good porosities. This is positive for the remaining prospects in the BCAM-40 block, as reservoir quality was considered the main risk factor for these deep water prospects. The well confirmed a functioning petroleum-system in the area and that gas had migrated to the prospect. The fact that the Sergi reservoir was water-bearing indicates that the seal in the structure was inefficient. Consequently, the Cravo well will be plugged and abandoned.

The company will recommend the consortium to study these facts and the relevance for the remaining prospects in the license before continuing the exploration campaign.

BM-CAL 5 and 6 (18% interest)
The BM-CAL 5 and 6 blocks are located offshore the Bahia state south of BCAM-40 in waters ranging from 360 to 1400 meters. Three wells were planned in these two blocks; Copaíba and Jequitibá in BM-CAL 5 and Peroba in BM-CAL 6. Drilling licenses for the wells were granted on April 4, 2008 (BM-CAL 6) and April 15, 2008 (BM-CAL 5).

The Peroba prospect drilling was completed on June 23, 2008, and the prospect was a dry well. The second prospect in the BM-CAL 6 block (Marfim) was contingent on the Peroba results, and will not be drilled.

The Copaiba well was spudded on July 3, 2008, and drilling was concluded on September 22, 2008. The well discovered two intervals with hydrocarbons and flow tests were conducted in these intervals. The results are being analyzed by the operator together with other geological and geophysical data. It is too early to conclude whether the discovery is commercial or not.

In the beginning of April 2009, the company accepted an offer from Petrobras and Queiroz Galvão to take over the company's 18.3% participating interest in the BM-CAL 5 block (the Copaiba discovery and the Jequitibá prospect). The company will not receive any compensation, but the transfer of ownership implies that the company will not carry any further drilling costs in BM-CAL 5 where drilling of Jequitibá is planned to commence shortly.

Sardinha Field (20% interest)
The Sardinha Field is located in the Camamu-Almada Basin, 50 kilometers south of the Manati gas field and at 4 kilometers distant to shore. Prior to the company's purchase of its 20% interest, the field had been defined by 11 exploration wells supported with 2D and 3D seismic. Throughout the year, economic feasibilities studies were conducted by the operator to analyze optimal development of the field. Proposals discussed between the partners included the production of both oil and gas and another for gas-only production. Currently, the partners continue to evaluate conceptual solutions for a development.

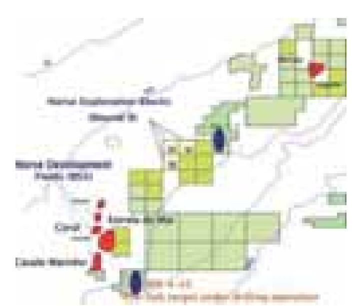
SANTOS BASIN
BS-3 Integrated Project
The company has defined the BS-3 Integrated Project to include the Cavalo Marinho (50% interest), Estrela-do-Mar (65% interest), Coral re-development (35% interest), Caravela (100% Petrobras) and a pipeline to shore.

During 2008, the company did a series of third party feasibility studies, including the geological mapping and modeling of the reservoirs, production modeling, conceptual engineering and risk analysis in the BS-3 project. The studies showed significant additional recoverable volumes and improved economic robustness. The studies also show the feasibility for an integrated development concept for the field development, including Estrela do Mar and a potential re-development of Coral. The results of the studies have been verified by the 2008 GCA certification, which resulted in a significant increase to the contingent resources. The best estimate for the company's contingent resources in the BS-3 Project thus increased with more than 23 MMBOE, from 2 MMBOE to 25 MMBOE. According to the GCA reserve report, estimated 2P reserves in the BS-3 Project are 20 MMBOE.

The BS-3 area development concept recommended by Norse to the partners consists of four fields developed in an integrated solution; Caravela (100% Petrobras owned), Cavalo Marinho, Estrela-do-Mar, and a re-developed Coral field, all together resulting in a +100 million BOE project. In this scenario, the fields will have subsea well templates connected to a joint FPSO, and the produced gas will be transported through a pipeline to be built to shore.

The company's goal is to finalize a feasible development plan for the BS-3 Integrated Project in 2009.

Coral (35% interest)
The Coral field, in Block BS-3, was one of the first fields to be developed in the Santos Basin. Norse Energy inherited its original ownership in the field from the merger with Northern Oil in 2005. Commercial productivity of the Coral field was projected to terminate in early 2008 when an unsuccessful workover in Coral #5 permanently stopped production from this well. The field production was then entirely concentrated on the Coral #4, and the consortium decided to use Coral #5 for water injection, aiming to boost the production flow on Coral #4 and gained valuable information for reservoir characteristics on the other fields to be developed in the integrated BS-3 project. The water injection was very successful and together with record high oil prices during part of 2008, the field's lifetime was extended into Q4 before abandonment



commenced. About 660,000 barrels of oil were produced during 2008 (100%), in addition to the expected production before water injection.

Average daily production in 2008 was 986 BOE/day net to Norse interest compared to 1,323 BOE/day in 2007, a 25% decrease.

S-M 1035, S-M 1037 and S-M 1100 (50% interest)
The company was the successful bidder on three offshore blocks in the Santos Basin in the 9th Bid Round offered by the ANP (National Agency of Petroleum). The company signed the concession agreement with the regulatory agency on March 12, 2008, and is now officially an offshore operator in Brazil.

The blocks are located adjacent to each other, about 100 kilometers northeast of the Coral field, in about 200 meters of water depth with 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 the period, Norse as operator of the consortium developed the regular legal documentation for the three blocks, including the JOA, yearly working plan and budget, approved by the partner, as well as the regular reports and documents and submitted to ANP. The initial technical work has been based on the acquisition of 2D seismic data from Schlumberger, confirming the existence of two significant prospects in these blocks: Jandaia and Sabia. The 2009 work plan for these concessions includes a 3D survey and processing, in order to gain a better understanding of the two prospects identified in the area, the Sabia and Jandaia prospects, and define the best location for potential wells. Such wells, if approved, are to be drilled after 2011.

On January 6, 2009 Petrobras announced an important gas discovery in the nearby BM-S-7 block which is only 40 km from Norse Energy's S-M-1036 block. This block has the same geological play as Norse Energy's Sabiá Prospect with the same reservoir characteristics and depth.

US OPERATIONS

Overview

Since 1996, Norse Energy has concentrated its energy activities in the northern Appalachian basin in New York and Pennsylvania. In 2008, our focus was on exploration and development of the company's extensive acreage position in central New York in pursuit of natural gas production. The company currently controls about 130,000 acres in central New York, of which approximately 5,000 acres are owned by Norse where we also receive the royalty. With recent leasing prices in excess of USD 2,000/acre in 2008, the company implemented a strategy of purchasing the entire land area, including mineral rights, at prices that were competitive with the cost of leasing.

Norse Energy also continued to expand its pipeline capacity to better service its current drilling program and its established acreage position in central New York. Our pipeline system presently delivers natural gas to a major interstate pipeline, Dominion Transmission, Inc. ("Dominion") and a large gas and electric utility, New York State Electric & Gas ("NYSEG"), servicing the New York State. Critical to a successful drilling program is easy access to attractive available markets with premium gas prices. During 2008 the company accelerated its efforts to add more delivery options and by year's end we approached completion of a pipeline right-of-way that will ultimately provide access to two additional major interstate natural gas transmission pipelines, Tennessee Gas Pipeline ("Tennessee") to the north and Millennium Pipeline ("Millennium") to the south. Tap and meter-site agreements have been established with Millennium and are presently being pursued with Tennessee. Once completed, our trunk-line system will gather gas along a pipeline corridor that extends for over 70 miles and encompasses three counties. It will provide access not only to a large utility customer servicing the area but three major interstate pipelines that will ultimately deliver gas to the New York City metropolitan area and other premium markets in the northeastern United States.

Throughout the year we refined our knowledge gained from an operating, engineering and geological perspective to successfully pursue our unique Herkimer play. With current average anticipated recoverable reserves estimated at an average 1.2 Bcf per well for the field, projected total "all-in" finding and development costs in the current area of production are USD 1.05/Mcf (including drilling, pipeline, land and seismic costs). It is particularly encouraging for future development that the last wells drilled in 2008 were the most promising with Initial Production flows averaging in excess of 1,000 Mcf/well per day. This trend continued into 2009 where multiple wells produce around 3,000 Mcf/day (535 BOE/day) per well. The company estimates that the Herkimer play could exceed 500 Bcf.

Schlumberger Technology Corporation ("Schlumberger") has certified our contingent resources to be 346 MMBOE, up 962% from 32.59 MMBOE last year. This increase is attributed to the success in the Herkimer play and the addition of a large number of locations in the Marcellus and Utica shale. A total of 37 wells were drilled during 2008, of which 23 were completed in the Herkimer formation. Of the 37 wells drilled in 2008, all have penetrated the shallower Marcellus formation and as a result, Norse has garnered valuable insights regarding the characteristics of this exciting shale formation.

In early 2008, the company sold all of its Medina formation assets (4,300 Mcf/day) in New York and Pennsylvania for USD 67 million and set as target to replacement that production by year's end. The company exceeded the goal by producing in excess of 6,000 Mcf/day at the close of 2008. Norse also continued to add to its acreage position in Western New York where it now controls 45,000 acres. It has found encouraging results in this region in pursuit of the Theresa Play. Collectively, Norse now controls around 175,000 acres in New York State.

The marketing division, Mid American Natural Resources (MANR), also continued to add value to the company's profitability, increasing total gas volume marketed by over 10%, from 21 million Mcf in 2007 to 23.2 million Mcf in 2008. Gross Sales also increased by approximately 40%, from USD 158.2 Million in 2007 to USD 225.2 Million in 2008.

Exploration & Production

For the past 13 years, Norse Energy has concentrated its exploration and production activities in the Northern Appalachian Basin. In 2008 Norse Energy drilled several successful wells in the Theresa Formation in Western New York but our primary focus has been, and remains, exploration and development of Herkimer wells in central New York. During 2008 we focused our efforts on drilling locations in close proximity to our existing mainline gathering system to ensure that wells were promptly placed into production. As a result, by year's end wells were being brought on line and producing on average in less than 30 days from completion.

A total of 37 wells were drilled during 2008, of which 23 were completed in the Herkimer formation. 19 of the Herkimer wells were drilled horizontally and four were drilled vertically. Of the 37 wells drilled in 2008, all have penetrated the shallower Marcellus formation and as a result, Norse has garnered valuable insights concerning the shale formation. From the wells drilled over the last five quarters, Norse Energy has 18 wells currently awaiting pipeline connection. The company now operates in excess of 100 natural gas wells in New York State. Norse's pipeline facilities are already operating in approximately one-third of the over 70 mile trunk-line corridor

being designed to bring gas discoveries to the Tennessee, Dominion, Millennium and/or the NYSEG pipeline.

Due to the divestiture of the Medina assets early in the year, average daily gas production in 2008 was 430 BOE/day, which is about 49% lower than the average daily production in 2007. After the divestiture of the Medina assets, the company established a goal to replace the production sold (approximately 4,300 gross Mcf/day) by the end of the year. The company not only met this target, but surpassed it, as total production from the US exceeded 6,000 gross Mcf (1,068 BOE) per day by the end of the year. Based on retained assets the increase was 110% in 2008.

2P reserves as stated by Schlumberger, decreased to 7.25 MMBOE down 45% compared to 2007. Excluding the sale of the Medina assets, the 2P reserves increased by 3.88 MMBOE. Additionally, Schlumberger has certified contingent resources to be 346 MMBOE, up 962% from 32.59 MMBOE last year. This increase is attributable to the success in the Herkimer play and the addition of a large number of locations in the Marcellus and Utica shale. The company is actively planning for development of this resource when opportunity permits, utilizing the valuable information gained.

The primary formations targeted in the company's revised exploration strategy are the Herkimer sandstone, Theresa sandstone and the Utica and Marcellus shales. Our exploration department shot 502 miles of 2D seismic during the year. The company invested about USD 55 million in exploration and production in 2008.

In order to capitalize on our position and finance our expansion program, the company has retained Jefferies & Company to assist in securing a potential strategic partner to develop its shale potential.

Pipeline capacity servicing our acreage position expanded throughout 2008. The first major accomplishment was the completion of a 12-inch plastic pipeline in October, which connects the existing sales points Bradley Brook (Dominion) and Diehl (NYSEG Pipeline), and should provide for a more rapid production increase which will be seen into 2009. Production flow should be further enhanced by a capacity upgrade to the Dominion Transmission delivery meter scheduled for mid-2009. The new pipeline capacity is 15,000 Mcf/day, with potential for upgrading for additional capacity.

Norse also holds working, royalty and overriding royalty interests in various minor oil and gas leases in the Mid-continent region of the United States, primarily in Oklahoma. The company does not serve as operator of any wells on these properties.

Gathering and Transportation

The Gathering and Transportation division ("G&T") oversees two pipeline operating systems involving company-owned natural gas pipelines covering approximately 350 miles in western New York and northwestern Pennsylvania.

The largest grid, covering approximately 320 miles, known as the Norse Pipeline system, gathers gas from third-party customers, as well as company-owned wells, and delivers it to several distribution points for sale. The delivery points include major interstate pipelines, local distribution companies and end users. Annual throughput on this system has increased since it was bought from Columbia Gas Transmission in 1999. However, in 2008 average daily throughput was 14,729 MMBtu, compared to 18,764 MMBtu in 2007. This decrease reflects that one of our larger customers left the transportation system in late 2007.

The other system, known as Nornew Energy Supply ("NES") is a 26-mile natural gas transmission line located in western New York with connections to a major interstate pipeline and the company's pipeline system. The line is currently leased to the City of Jamestown, New York Board of Public Utilities to provide gas supply to its power generation facility for an initial term of 20 years, expiring in 2020. Norse Energy has retained Jefferies to also assist the company in evaluating strategic alternatives for our midstream gathering and transportation pipeline operations.

Energy Marketing

The company, through its Mid American Natural Resources ("MANR") marketing arm, creates profit margins by effectively aggregating supply from Appalachian producers, marketers and utilities. MANR transports and balances those supplies and delivers them to strategically targeted markets. Consistent with our ongoing strategy, on a volumetric basis, customers are split roughly 50/50 between larger wholesale customers such as utilities and third-party wholesale marketers as well as commercial and industrial customers. This creates an effective portfolio, both from a risk and unit margin perspectives.

MANR marketed 23.2 BCF in 2008, about a 10% increase when compared to the 21 BCF marketed in 2007. Because of the record high NYMEX prices seen during much of 2008, Gross Sales increased from USD 158.2 Million in 2007 to USD 225.2 Million in 2008, approximately a 40% increase. MANR's EBIT in 2008 was USD 6.2 Million compared to USD 3.8 Million in 2007. Among the positive factors in 2008 when compared to prior years was continuing growth on the National Fuel Gas Distribution Corporation (NY), Equitable Resources Inc., New York State Electric & Gas, and Rochester Gas & Electric systems plus MANR's ability to profit from market volatility through aggressive wholesale marketing and transportation optimization. Consistent with MANR's ongoing efforts to limit business risk, MANR began to utilize Credit Insurance in 2008 and will continue to do so in 2009

+ RESERVES AND CONTINGENT RESOURCES

The company 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.

Each region (division) has a long standing relation with its certification agents; Gaffney, Cline & Associates in Brazil and Schlumberger Technology Corporation in the US. A full "Annual Statement of Reserves" will be published in May 2009.

Norse Energy's final 2008 reserve reports are summarized in the table below;

Reserves (certified volumes reflecting approved development plans):

Division	1P reserves (MMBOE)	*	2P reserves (MMBOE)	*	3P reserves (MMBOE)	*
Total US	4.35	↓	7.25	↓	8.32	↓
Estrela-do-Mar	-	=	5.70	=	6.80	=
Cavalo Marinho	5.66	↑	14.17	↑	20.29	↑
Manati	12.80	↓	16.65	↓	18.64	↓
Total Brazil	18.46	↓	36.52	↑	45.73	↑
NEC TOTAL	**22.81**	↓	**43.77**	↓	**54.05**	↓

** Compared to the 2007 reserve report*

The grand total of 43.77 MMBOE of 2P reserves represents a decrease of 9% compared to last year's certified reserves, mainly as a consequence of the disposals of the US Medina assets. The company 1P reserves of 22.81 MMBOE correspond with a reserve replacement ratio of 1.84 considering a production of 1.85 MMBOE and asset sales of 7.93 MMBOE in 2008.

Best estimate Contingent Resources (certified volumes but without approved development plans):

US Division	2C Contingent Resources (MMBOE)	*	Brazil Division	2C Contingent Resources (MMBOE)	*
Herkimer	26.18	↑	Coral	3.43	↑
Oneida	4.39	↑	Estrela-do-Mar	6.20	↑
Vernon Shale	1.11	↑	Cavalo Marinho	15.07	↑
Marcellus Shale	130.89	↑	Caravela Sul	0.40	=
Utica Shale	182.76	↑	Sardinha	4.47	=
Others	0.88	↑	BAS-131	0.93	↑
Total US	**346.21**	↑	**Total Brazil**	**30.50**	↑

According to the SPE definitions, categorization of volumes as reserves are only permitted when approved development plans demonstrating acceptable economics are available. For Brazil, GCA was this year asked to review ongoing work undertaken by the Norse Energy and partners in order to improve development solutions for assets currently pending approved development plans. These assets have been categorized as Contingent Resources and reflect GCA's assessments of best recoverable volumes.

Best estimate (2C) Contingent Resources shows an increase of 860% from 39.24 MMBOE to 376.71 MMBOE at the end of 2008. For Brazil the increase from 6.65 MMBOE in 2007 to 30.50 MMBOE in 2008 is mainly attributable to introducing revisions to the BS-3 Development Plans by integrating more fields, sharing common infrastructure, as documented by studies conducted by the Norwegian based consultancy company AGR.

For the US the increase is attributed the success in the Herkimer play and the addition of a large number of locations in the Marcellus and Utica shale. In 2008, the company invested time to evaluate the potential resources contained in some of the shale formations underlying the current lease positions. This evaluation yielded positive results and provided additional locations to the 2C category in the reserve report. The company is actively planning for development of this resource when opportunity permits.

During 2008, the company had the following reserves development:

Reserves Development	2P reserves (MMBOE)
Balance (previous ASR) as of December 31, 2007	48.12
Production 2008	-1.85[1]
Acquisitions/disposals since previous ASR	-9.72
Extensions and discoveries since previous ASR	-
New developments since previous ASR	3.88
Revisions of previous estimates	3.34
Balance (current ASR) as of December 31, 2008	43.77

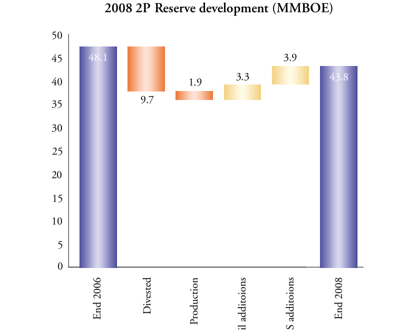
1 Brazil 1.69 MMBOE, US 0.16 MMBOE

2008 2P reserves by field (MMBOE)

0.8
6.4
16.7
5.7
14.2

Manati | Cavalo Marinho | Estrela do Mar | Herkimer US | Other US

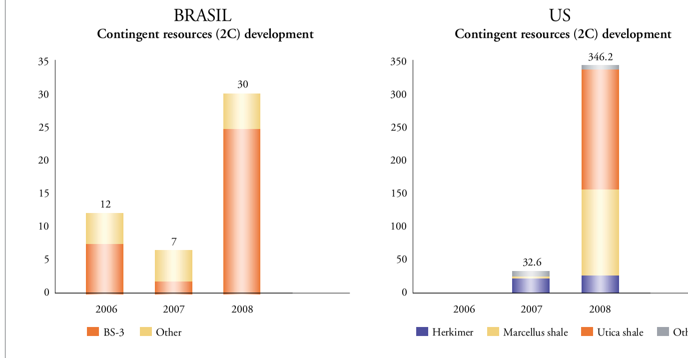
2008 2P Reserve development (MMBOE)



The most significant changes compared to last year's report are mainly attributable to:

Brazil:

- Reduced Manati reserves over the year partly reflect the produced volumes, partly a redistribution of reserves between categories reflecting effects of observed production performance. Work is in progress by the Operator to review the geological understanding of the Manati field, including a possible northern extension requiring a 7th well. Results of these studies were not available for this report.
- As in 2007, the 2008 GCA review considers only the actual gas sales contract volume of 23 billion m3 as 1P recoverable volume
- Manati reserves are based on a six wells field development and reserves estimates are based on the contracted volume to the gas purchaser, Petrobras. The field is anticipated to have a much larger ultimate recovery as reported by the operator of the field, Petrobras. The field has produced for two years and reached a cumulative gas production of 3.2 billion m3 (100%). Acquired production and pressure data, in each one of the producing wells, support reservoir model forecasted volumes.
- Coral production was terminated December 25, 2008 and the field is currently under temporary abandonment. However, studies indicate a possible future re-development in a larger area field integrated concept. This option is reflected in the shown Contingent Resources volumes.
- Cavalo Marinho reserves are marginally improved, following a revised formula for cost split in the approved development plan for integration of the Cavalo Marinho and Caravela fields. During 2009, the partners intend to revise this development concept with integration of further fields to the shared infrastructure as well as considering the introduction of more wells, different well solutions, artificial lift, and increased water handling capacity in order to further optimize the concept. The effects are indicated in the Contingent Resources table.
- For Estrela-do-Mar, lower oil price expectations have resulted in no 1P reserves for the stand-alone development concept that reflects the current development plan submitted to the authorities. As indicated above, work is in progress to expand the scope of the integrated development project including Estrela-do-Mar. As for Coral and Cavalo Marinho above the effects are indicated in the Contingent Resources table.
- In total, GCA revisions for the 2P category have added gross 3.34 MMBOE of reserves.



USA:
- The company transitioned from its Medina development focus (western New York State) to exploration and development in eastern New York State. As a consequence of the sale of the Medina assets, 2P reserves were reduced by 9.72 MMBOE. Despite this, our total US 2P reserves for the year were reduced by only approximately 6 MMBOE, while 2C increased from 32 MMBOE to 346 MMBOE.
- The first half of 2008 was spent drilling multiple areas in our eastern New York state leases to determine the potential. After delineating much of the field and confirming the observations obtained through seismic and geologic mapping, the focus shifted to replacing the production lost in the sale of the Medina assets. The majority of drilling activity was concentrated in the northern part of the field where the company had a fair amount of 3D seismic data and pipeline infrastructure. The access to this data and proximity to pipeline allowed for rapid identification of locations and reduced production lag. This focus allowed for significant growth in proven reserves.
- Excluding the sale of the Medina assets, the US 2P reserves increased by 3.88 MMBOE during 2008 with special emphasis on the contingent resources of 1.9 Tcf (346 MMBOE) providing a significant upside potential value to our shareholders. Economic conditions will determine development timing for these assets.
- The focus in the existing area limited the growth in the 2P and 3P reserve categories. As the company drills south into new areas the growth of the 2P and 3P values should also grow proportionally. With the reduction in gas prices and focus on the successful Herkimer play, much of the reserves from other zones such as the Oneida and Vernon Shale were moved to the contingent category.
- An extremely large jump in the contingent reserves can be observed. This can be attributed to the research and evaluation of the Marcellus and Utica shale deposits in the company's acreage. That evaluation shows significantly large potential from the shale zones which is reflected in that number.
- The company spent USD 56 million in the US in 2008, drilling 37 wells of which 19 were horizontal Herkimer wells and built infrastructure to transport anticipated 2009 gas production.
- Infrastructure to flow all anticipated gas production in 2009 was built during 2008, and we are currently moving gas into two main pipeline systems
- The company drilled four successful exploration wells in the deeper formation Theresa, all these wells are still awaiting pipeline connection.
- In addition, 2.8 Bcf (0.5 MMBOE) of 1P reserves are still awaiting pipeline connection in central New York as of year-end.

The reserve and resource estimates are based on the following assumptions:
- All US numbers from Schlumberger are net to the company's interest after royalties.
- All Brazil numbers from GCA include royalty, but the royalty is excluded in economical calculations (PV10).

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 resevoirs 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 date indicate are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves.

3P) Possible Reserves
Possible Reserves are those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recoverable than Probable Reserves.

Contigent Resources
Those quantites of petroleum estimated as of a given date, to be potentially recoverable from know accumulations by application of development projects, but which are not currently considered to be commercially recoverable due to one more contigencies.

Source: Gaffney, Cline & Associates Inc.

+ DIRECTORS' REPORT 2008

Norse Energy was listed on the Oslo Stock Exchange (OSE) on July 13, 2005 under the ticker symbol "NEC" with corporate headquarters located at Lysaker, near Oslo. The company's business consists of exploration, production, transportation and marketing of oil and natural gas. The operations are located offshore Brazil and in the North East US.

Operational Performance
Brazil Division
The company experienced record production as the Manati gas field, the largest non-associated gas producing field in Brazil, contributed to steady production from all six wells. Additionally, the company had higher oil production from Coral in the Santos Basin than originally anticipated prior to commencing abandonment operation by end of the year.

During 2008, the Manati field produced net to the company's 10% interest a total of 207.71 million m3 of gas and 232,593 barrels of condensate, equivalent to 3,437 BOE/day. Manati gas sales were 195.87 million m3 (1,231,688 BOE net to Norse Energy) or 3,364 BOE/day. The Manati gas price is fixed in Brazilian Reais and is annually adjusted by the Brazilian inflation index. As such, the gas price is fluctuating when converted to US dollars. The gross sales price of gas sold averaged USD 6.98 per MMBtu in 2008. For 2009 the price in Brazilian Reais is adjusted upwards with 9.8% in accordance with the inflation index.

Oil production from the Coral field was 986 BOE/day of 41º API oil, resulting in sales of 1,066 BOE/day at an average price of USD 106.65 net to the company's 35% interest. Production from the field was prolonged as the water injection was successful and sales at all-time high oil prices. As abandonment of the field commenced, production ceased by the end of the year.

Drilling of the Gengibre well in the BCAM-40 exploration block concluded in early 2008. The well logs revealed three hydrocarbon bearing zones and presence of light oil was found, but was not deemed commercially viable. However, the Gengibre results have confirmed the existence of an active petroleum system in the BCAM-40 block. The second prospect in the BCAM-40 license, Cravo was spudded and drilled in Q1 2009. The well was logged and the logs showed that the Rio das Contas sandstone reservoir had eight meters net thickness with gas, but the main target in the Sergi Sandstone reservoir was water bearing, and deemed non-commercial in early April 2009.

The drilling of the Peroba prospect in BM-CAL 6 was completed in June 2008, and the prospect was deemed to be a dry well. In the adjacent BM-CAL 5 block, the drilling of the Copaiba prospect concluded in September 2008 after a discovery of two intervals with hydrocarbons. Test results are under analysis. After the close of the year, the company farmed out the BM-CAL 5 block to the partners Petrobras and Queiroz Galvao and charged USD 18 million to the 2008 income statement.

During 2008, the company continued its focus on Santos Basin with a series of third party studies of the reservoirs in the BS-3 project for a possible concept for development of the fields. The studies show significant additional volume and improved economic robustness. The results of the studies have been verified by the 2008 Gaffney Cline certification, which resulted in a significant increase in contingent resources. The company is working towards an integrated BS-3 area development which consist of four fields; Caravela (100% Petrobras owned), Cavalo Marinho, Estrela-do-Mar, with a re-developed of Coral field and a pipeline to shore. Such development is subject to the operator filing a development plan on behalf of the partners in accordance with the company's plan.

The company was the successful bidder as a 50% owner and operator of three offshore blocks in the Santos Basin in the 9th Bid Round in late 2007. In March 2008, the company signed the concession agreement with the regulatory agency. Two prospects have been identified in these blocks based on the initial technical work. Our 3D Seismic commitment is anticipated to commence in 2009.

US Division
During 2008, we drilled 37 wells of which 23 targeted the Herkimer formation; 19 horizontal wells and four vertical wells. At year end, the company was operating about 100 producing gas wells and participating in some non-operated wells in Appalachia and Oklahoma.

In March 2008, the company sold all its Medina formation assets for USD 67 million. This assets sale represented 4,300 Mcf/day of gas production versus total US Company production at the time of about 5,800 Mcf/day. The company's resources have since been focused on converting its vast resources in to proven reserves through exploration and development of the company's extensive 175,000 acreage position in New York State.

Average daily gas production from the retained wells was 430 BOE/day in 2008, down from 850 BOE/day in 2007. The decline is a result of the divestment of the Medina assets. Based on retained assets the increase was 110% in 2008. After the divestiture of the Medina assets, the company set as a goal to replace the production sold (approximately 4,300 Mcf/day) by the end of the year. The company surpassed this goal, as total production from the US exceeded 6,000 Mcf (1,069 BOE) per day by the end of the year.

A significant accomplishment for the pipeline division was the completion of a 12-inch plastic pipeline in October that connects two existing sales points in central New York. This should provide for around 15,000 Mcf/day of gathering capacity. To flow this volume, further capacity upgrade to the Dominion Transmission delivery meter is needed. Throughput for the Norse Pipeline division was 5.4 Bcf. The average daily throughput was 14,729 MMBtu, down from 18,764 MMBtu in 2007.

Energy Marketing boosted gas sales to a record high of USD 225 million with solid margins.

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. The premise of the going concern assumption is dependent upon a successful solution of the financial challenges that the company is currently facing which is further described in this report.

Financial Performance and Activities
The financial results for 2008 were affected by the sale of most of the company's producing assets in the US, increased natural gas production in Brazil and impairment and exploration costs. The increase in net results compared to 2007 was mainly attributable to the sale of assets in the US, increased sales, as well as lower depreciation and impairment charges. The divestment of assets and increased production sold at high oil and natural gas prices, contributed to a record high USD 41 million EBITDA for the year.

Norse Energy capital expenditure program for 2008 net of impairment and dry hole costs, resulted for accounting purposes in capitalization of assets totaling USD 71 million, split in USD 16 million for the Brazilian division and USD 55 million for the US division. Adjusted for dry hole cost, the gross amount spent in 2008 was about USD 100 million. In addition, assets in the Brazilian division were significantly affected by changes in foreign exchange rates, decreasing the book value of the assets by approximately USD 33 million.

Condensed Consolidated Income Statement

(Amounts in USD 1,000)	2008	2007	Change
Total revenues	**334,508**	**214,711**	56%
Operating Expenses			
US Marketing purchases	-206,500	-141,588	46%
Production costs	-27,949	-25,802	8%
Exploration and dry hole costs	-27,225	-2,629	936%
Depreciation	-16,719	-28,901	-42%
Impairment	-25,911	-26,159	-1%
General and administrative expenses	-31,605	-17,870	77%
Total operating expenses	**-335,909**	**-242,949**	38%
Operating profit / (-) loss	**-1,401**	**-28,238**	-95%
Net financial items	**-10,229**	**-8,205**	25%
Net profit/ (-) loss before tax	**-11,630**	**-36,442**	-68%
Income tax expense	1,090	7,737	-86%
Net profit/ (-) loss	**-10,540**	**-28,705**	-63%

In 2008, total sales revenues were USD 334.5 million, an increase of approximately 56% from USD 214.7 million in the previous year. A significant portion of the sales revenue relates to Norse Energy's Marketing division in the US which contributed with revenues of USD 225.2 million in 2008, compared to USD 158.2 million in 2007 – an increase of 42%. In accordance with IFRS, revenues from the Marketing division are booked on a gross basis. Additionally, the gain on the sale of Medina assets of approximately USD 28 million and the 100% increase in Manati gas sales from USD 18.7 million to USD 37.4 million, contributed to the increase in revenues.

Production costs increased by 8% from USD 25.8 million to USD 27.9 mainly due to higher volumes from oil production in Brazil. Exploration and dry hole costs increased significantly in 2008 and totaled USD 27.2 million for the year, most of this relating to the Brazil division. Depreciation decreased by 42% from USD 28.9 million in 2007 to USD 16.7 million in 2008. This decrease is mainly related to the Coral field, which for accounting purposes was written down to USD 0 per December 2007 and was therefore not depreciated in 2008 although it was still producing. An impairment charge of USD 25.9 million was booked in 2008 compared to USD 26.2 million in 2007. The impairment for 2008 relates to the license for the BM-CAL 5 & 6 blocks in Brazil as well as an increased abandonment charge for the Coral field. As activity level and number of employees increased, coupled with reorganization, general and administrative expenses increased from USD 17.9 million in 2007 to USD 31.6 million in 2008.

Operating loss for 2008 was USD 1.4 million compared to an operating loss of USD 28.2 million in 2007. This improvement mainly came as a result of the sale of assets, the increase in natural gas sales in Brazil, as well as the lower depreciation and impairment charges seen this year. Cash flows from operations were USD 5.9 million in 2008 compared to USD 2.8 million in 2007.

Net financial items were negative USD 10.2 million in 2008, from negative USD 8.2 million in 2007. The increase in financial expenses is mainly attributable to net interest costs of USD 23.8 million in 2008 compared to costs of USD 16.1 million in 2007. This was partially offset by positive financial items such as foreign exchange effects and warrant effects of our listed NEC-J warrants.

The company's financial statements were impacted by changes in foreign exchange rates. The company has assets and liabilities denominated in both Norwegian Kroner and Brazilian Reais, and as these currencies fluctuate versus the US dollar, a gain or loss is recognized. The company utilizes currency swaps for risk management purposes in order to hedge the long-term interest bearing bond loans denominated in NOK. The effect of these currency swaps and net foreign exchange gains and losses was a gain of USD 5.8 million in 2008 compared to USD 4.1 million in 2007.

During 2006, Norse Energy entered into two loans with detachable warrants. The warrants are separately listed on the OSE under ticker code NEC-J, and the fair value of the warrants is estimated at each reporting date with any change in the fair value being recorded in the income statement. The decline in the share price contributed to a non-cash financial income of USD 8.1 million in 2008 compared to a financial expense of USD 3.3 million in 2007.

For further details on the company's financial instruments and transactions, refer to note 10 in the consolidated financial statements.

Income tax expense for 2008 was positive USD 1.1 million compared to USD 7.7 million in 2007. This gives an effective income tax rate of 9.4% in 2008. This low rate is mainly the result of foreign exchange effects from the company's Brazilian operations, as well as use of previously unrecognized losses carried forward.

Net loss for 2008 was USD 10.5 million compared to net loss of USD 28.7 million in 2007. The main reasons for this change is the sale of assets in the US, increased natural gas sales in Brazil and lower depreciation.

Norse Energy's total assets decreased by USD 38 million in 2008, which was mainly due to a reduction in short term assets following the sale of Medina assets previously classified as assets held for sale and impairment charges. The company spent approximately USD 100 million in oil and gas assets, however, the net increase in long-term assets for the year was about USD 10 million due to significant transfers of exploration costs to the income statement, depreciation and impairment in Brazil, as well as foreign exchange effects. The asset balance was USD 436 million at the beginning of the year, whereas the asset balance was USD 398 million at the end of the year. Of this, current assets amounted to USD 79.6 million. At the end of 2008 the book equity ratio was 17%, compared to 19% at the end of 2007. The Board is continuously working on improving the company's financial flexibility and recognizes the need to improve the financial position of the company.

Allocation of Profit in Norse Energy Corp. ASA
The Board of Directors proposes that the profit for the year of NOK 117.0 million in the parent company is transferred to other equity. As of December 31, 2008 the company has NOK 117.0 million in unrestricted equity.

Funding, Share, Debt and Bond Issue
During 2008, the only share issue that took place was related to an exercise of stock options by one of our employees. In the second half of 2008, the company extended the maturity date for a total of NOK 153 million of its bond loans from July 2010 to September 2012. This conversion of bonds also resulted in a change from floating to fixed interest rates. Subsequently, the company extended a voluntary offer to the bondholders in this new NOK 153 million bond issue (NEC04) and in NEC03 (NOK 200 million 3-year at 3-month NIBOR + 4.25%) to exchange the existing bonds at par value for bonds in two new issues. The purpose of these offers were to exchange existing bonds denominated in NOK for new bonds with USD currency and fixed interest of 9.5 % and 10.707 %, respectively. Bond holders representing NOK 126 million and NOK 60.5 million, respectively, accepted this offer, swapping bonds at USD/NOK 7.08 and USD/NOK 6.92.

Upon issuance of NEC04 in late September, the company entered into a currency swap in order to reduce overall NOK exposure. A total of NOK 139 million was swapped into USD 24.1 million. Any upward/downward movement in the NOK/USD exchange rate will result in a loss/gain on the currency swap and a corresponding margin call/release. As the majority of the NEC04 bondholders exchanged their bonds into the new USD denominated bond loan, the currency swap was instead tailored to match the cash flows of NEC01; the company's NOK 286 million bond loan and the currency swap will last until July 2010. Following this currency swap, the remaining NOK debt exposure is NOK 174.5 million. The weighted balance between USD and NOK is now more aligned with the company's overall currency strategy. The company has the current outstanding bond loans per December 31, 2008:

Name	USD/NOK rate for swap/exchange	Denomination and amount	Interest	Maturity
NEC01	-	NOK 147 million	Fixed 10.00%	July 2010
NEC01 (USD swap)	5.76	USD 24.1 million	Fixed 8.50%	July 2010
NEC03	6.92	USD 8.8 million	Fixed 9.50%	July 2010
NEC03PRO	-	NOK 0.5 million	3-month NIBOR + 4.25%	July 2010
NEC02	-	USD 75 million	Fixed 6.5%	July 2011
NEC04	7.08	USD 17.8 million	Fixed 10.707%	September 2012
NEC04PRO	-	NOK 27 million	Fixed 11.50%	September 2012

Management and the Board of Directors have initiated a number of actions including sale of assets, joint ventures, or raising additional equity in order to meet short- and long-term financial obligations, among them interest payments in Norway due July 2009. The Board of Directors is of the opinion that the measures taken are sufficient in order for the company to meet its short-term obligations.

The company's first repayment of debt in Norway is scheduled for July 2010 with approximately USD 54 million. Weighted average interest costs on outstanding loans as of December 31, 2008 was 8.5%.

In Brazil, the company obtained a USD 21.5 million (BRL40 million) bridge loan with two banks in the third quarter as part of a BRL 100 million exploration and development loan initially approved by the banks to be supported by BNDES (Brazilian State Development Bank). The tranche is expected to be replaced with BNDES Reais financing during 2009. The outstanding gross debt in Brazil is approximately USD 79 million and most of the debt is set to be repaid quite aggressively with current latest principal payment in 2013. The repayment schedule in Brazil is thus very aggressive and not aligned with the long-term cash flow generation from our 10 % ownership in the Manati gas field. The company is working on numerous ways of refinancing its Brazilian debt portfolio in order to be more aligned with its long term cash flow.

In the US, the company continues to base its borrowing on reserve based lending. By the end of the year, the company increased its lending base to USD 15 million with a local US bank. Reserve based lending utilizes bank approved and audited net proven production and reserves as collateral for the note. As reserves and production increase, funds are made available for lending purposes and the company expects to accelerate the reserve based lending leverage into 2009 along with converting resources to proven reserves.

At December 31, 2008 and at the date of this report, the company was in compliance with all covenants related to the senior unsecured bond loans. The company was not in compliance with the covenants related to the loans in the subsidiaries Coplex and Norse Energy do Brasil. The companies were in breach of the debt service coverage ratio in Coplex and Norse Energy do Brasil, since little income was recorded after Coral abandonment commenced. The company is in the process of transferring these loans as part of a comprehensive debt restructuring to Rio das Contas, the subsidiary holding the BCAM-40 license with the Manati field. In addition Rio das Contas has requested an adjustment of the debt service coverage calculation for dry hole costs in the EBITDA number for covenant compliance purpose. If this is accepted, we will be in compliance with covenants in Rio das Contas. The company is still awaiting waivers on the current situation. This is likely to be concluded as part of the debt restructuring described above.

In the US, the company was not in compliance with the G&A over Net Income covenants related to the US reserve based lending due to the sale of most all its production assets, but a waiver has been communicated for this.

For further details on the company's bond loans, refer to note 15 in the consolidated financial statements.

Risk Factors and Funding
The company's primary products, crude oil and natural gas, are exposed to continuous price fluctuations. Furthermore, the development of oil and gas fields in which the company is involved is associated with significant technical risk, alignment in the consortium when it comes to the development plans and 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 operators of these fields.

The company has taken several measures to reduce these market risks. Oil put options have been purchased for a significant portion of the Coral production, and these put options were sold by the end of the year as Coral production ceased. Also, portions of the US natural gas production have been hedged using forward sales. For further details on the use of financial instruments, refer to note 10 in the consolidated financial statements.

The company's revenues and expenses are primarily denominated in US Dollars; however the gas contract in Brazil for the Manati gas sales is denominated in the local currency. Some other costs and income items are also incurred and earned in the local currency in Brazil and Norway. The company has not taken specific measures to hedge against fluctuations in exchange rates between Brazilian Reais and US Dollar, since there is a high degree of balance in the cost and revenue denominated in Brazilian Reais. However, the company has balanced some of the Reais risk against some Reais denominated loans. In addition, our experience is that both Reais and NOK, as commodity currencies, somewhat run in parallel and as such our NOK loans is view as a hedge against the Real.

During 2008, the company has worked to minimize both the foreign exchange risk and the floating interest rate risk by swapping several NOK denominated loans into USD denominated loans with a fixed interest rate. In mid-year 2008, the company terminated two currency swaps at USD/NOK 5.03 realizing a significant gain. As part of the refinancing during the second half of 2008, the company entered into a new currency swap for a total of USD 24.1 million at an exchange rate of 5.76 USD/NOK. For further details on the company's loans and currency exposures, refer to notes 10 and 15 in the consolidated financial statements.

Financing the development of company reserves beyond 2008 is dependent on the company's ability to secure adequate external debt financing, sale of assets and/or contribution of working capital. The optimal financing structure is continuously being evaluated. There are no assurances that total financing will be successfully secured to develop all company projects and assets. Due to the global financial turmoil the availability of funding has become scarcer and the price of capital has increased. These changes will impact the company's growth opportunities, but Norse Energy is focused on preserving financial flexibility through its capital expenditure program. The aim is to have a self financed US business model and at the same time reducing the committed capital expenditure program to a minimum in Brazil. The main challenges are related to securing the necessary funding within the required time frame, especially in Brazil. The cash position in Brazil is limited and will continue to be so until a refinancing is in place.

The company has also initiated several processes on raising funds on the subsidiary level by engaging financial advisors for Brazil. This has involved an attempt to do an IPO in Brazil which was unfortunately aborted in early 2008 due to a difficult equity market. Later in the year, the company pursued a private placement process which coincided with a collapse in commodity prices. The company is working towards attracting equity partners at the subsidiary level in order to reduce the Brazil versus US exposure. In the US, the company has retained financial advisors to find an optimal financial structure for the large shale position, which unfortunately was caught in a commodity collapse. In addition, the company has been working with a financial advisor to optimize the value of its pipeline division. Timing related to these processes is uncertain but Norse Energy will continuously seek to align its capital spending with the price and availability of financing.

Norse Energy could potentially be classified as a passive foreign investment company for U.S. federal income tax purposes. In that event, beneficial owners of common stock which are subject to U.S. federal income tax could incur adverse consequences. Such beneficial owners of Norse Energy common stock should consult their tax advisors.

Corporate Governance
The principle behind good corporate governance is to establish and maintain a strong, sustainable and competitive company in the best interest of the shareholders, employees, business associates, third parties and society at large. The Board recognizes that the shareholders and others should have confidence in the way the company is governed and managed. A successful value-added business is profoundly dependent upon transparency and internal and external trust. The company believes that this is achieved by building a solid reputation based on financial performance, the company's values and by fulfilling our promises. The Board acknowledges the Norwegian Code of Practice for Corporate Governance of December 4, 2007 and the principle of comply or explain. We have implemented the Code and will use its guidelines as the basis for the Board's governance duties. A summary of the corporate governance policy is incorporated in a separate section of this report and a lengthier version of the policy is posted on the company's website at www.NorseEnergy.com.

Discrimination and Equal Employment Opportunities
Norse Energy is an equal opportunity employer, and integrates an equality concept into its human resources policies. All employees are governed by Norse Energy's codes of ethics and operations to ensure uniformity within its workforce. At Norse Energy, we embrace a diversified working environment, valuing and respecting our individual abilities and differences. Employees are remunerated based upon skill level, performance and position within the company. Norse Energy is a knowledge-based company in which a majority of the workforce has earned a college or university level education, or has obtained industry-recognized skills and qualifications specific to their job requirements. Norse Energy supports its employees in continuing development of their skills through ongoing education that furthers Norse Energy's goals of being at the forefront of efficient and innovative industry practices. During 2008, Norse Energy expanded its workforce in response to the company's continued operational growth and to support future growth. The company employed 109 persons at the end of 2008, whereof six in Norway, 28 in Brazil, 74 in the US, and one in Canada, 61% were men and 39% were women. Women account for 9% of Norse Energy's senior management. Overall workforce turnover is relatively low.

Health, Safety and the Environment (HSE)
In order for Norse Energy to meet its goals, the company maintains high standards in its work environment, whether in the office or in the field. The safety of our employees is of the highest priority, thus our focus is on continuing to maintain and improve our work environment and to be flexible with initiating new procedures to ensure consistency in safety results as conditions change. This is especially critical during the colder months of our US operations, as weather is frequently a factor in adhering to safety parameters. The company observes excellent industry practices in line with all regulatory required standards for health, safety and the environment. Norse Energy's primary goal is to conduct its operations in such a way that it does not harm people or the environment.

The company's activities in Norway do not pollute the environment. In Brazil the company's 2008 operations were all conducted in licenses where the operator carries the physical responsibilities of operating at acceptable HSE standards on behalf of the licensees. To our satisfaction, we have noted that no accidents resulted in loss of human lives or damages to individuals or property. Furthermore, to our knowledge,

all the operations where the company was involved have been conducted within limits set by approved environmental regulatory authorities. During 2008, Norse Brasil became the offshore operator of three exploration blocks in shallow waters of the Santos basin. One of the activities conducted was to get acquainted with ANP regulations and peer E&P company practices and HSE manuals and procedures.

In the US, where the company operates nearly all of its gas properties, Norse Energy endeavors to follow strict environmental and safety policies in accordance with US federal and state regulatory requirements governing such exploration and production activities. During 2008, to the best of the company's knowledge, it was in compliance with all federal, state and local regulations regarding workers' health, safety and the environment. However, it should be noted that the company did experience two well fires in the first quarter of 2009.

The US E&P division has employed an expert with specific experience in safety matters to help in addressing the company's safety policies.

The US G&T division conducts annual Occupational Safety and Human Administration (OSHA) training, safety meetings and has an established written safety procedure.

Company time lost due to employee illness or accident was less than one percent during both 2008 and 2007.

It is the company's policy to always work towards identifying and employing technical solutions that ensure safe and efficient operations. This policy has been pursued during 2008 for all our identified development projects.

The working environment in the company is considered good, characterized by an entrepreneurial and caring spirit where constructive ideas and initiatives are welcome, and trust between employees and the company's management is solid.

Directors and Shareholders
According to its articles of association, the company must have a minimum of five and a maximum of eight directors on its Board. The current number of board members is five, all non-executive directors. Two board members are female. The members have varied backgrounds and experience which offer the company valuable perspectives. The Board held 13 meetings during the year.

During 2008, our new Board members Kathleen Arthur and Bjarte Bruheim, replaced Board members Øivind Risberg and Joey S. Horn.

In early January 2008, Axel C. Eitzen personally and through his affiliated companies sold 67.6 million shares This sale represented approximately 19% of the outstanding shares in Norse Energy. Approximately 11.7 million shares were bought by insiders and the remaining 55.9 million shares by non-insiders.

Outlook
Norse Energy is positioned in two of the most promising energy regions in the world as a natural gas producer with both long lived oil and gas reserves offshore Brazil and onshore USA. In Brazil the company has a fixed minimum-priced, inflation-adjusted take-or-pay contract with Petrobras for the Manati gas, whereas the company in the US has secured parts of the natural gas production on forward sales. This should provide stable cash flow in challenging times.

The company's aim is to have the US arm as a self funded division, primarily through the access to reserve based lending, partnership structures and divestitures. As production grows and decline history of the Herkimer wells is established the company expects reserve based lending to increase. The production yield so far is above budgeted expectations and with continued drilling and corresponding buildup of infrastructure in the Central New York State area, Norse Energy is optimistic about the growth prospects.

In offshore Brazil, the primary focus going forward will continue to be to capitalize on development of the Southern Santos position and fine tune the portfolio accordingly. The company's strategy is to rebalance the portfolio given the current challenging financial markets. In 2008 the company achieved the goal of verifying the large resource potential in the Southern Santos region. This was accredited through the 3rd party year-end contingent reserve report. The study conducted by a third party engineering company verified the belief that the Southern Santos asset potentially contains hydrocarbons of much greater magnitude than previously thought. In order to capitalize on this, an integrated solution between the fields is the most economical and the company's goal is to have the operator on behalf of the partners to file a new development solution by 2009. Our partners and the Brazilian regulatory environment will continue working with us to reach a common development solution.

Offshore Brazil is a capital intensive area and in today's challenging financial market the strategy will be to secure the financial flexibility through preservation of capital, limitation of future exploration commitment and capitalize on the growth prospects in the Southern Santos. With a long lived take-and-pay gas contract through the 10 % ownership in Manti the company has a long term cash flow. However, as the current debt repayment schedule is very aggressive the company will work on repayment schedule more aligned to the cash flow. Additionally, the company is working on capitalizing certain assets as well as restructure the entire debt portfolio. Given a

repayment schedule that is more aligned with the long term cash flow from the Manati field comes in place the company should improve its financial flexibility. The company's primary focus going forward will then be to work out a restructuring plan with the Brazilian banks as part of the plan to meet the 2009 budget. However, the Board recognizes that financing the development of the company's reserves is dependent on the company's ability to secure adequate external financing, sale of assets and/or contribution of equity.

General cost optimalization is in focus and in the US the operations have already been centralized in the Northeast improving the cost structure and productivity. In Brazil, the company is expecting cost to be lower as the company fine tunes its portfolio.

2008 was a year of proving up the play and corresponding resources in both the US and Brazil. The shale formation in Appalachia received widespread media attention and high acquisition prices were noted as the majors entered the region. Schlumberger recognized Norse's potential and 2C contingent resources went up ten times from 2007 mainly due to the Marcellus and Utica shale inventory. Parallel to this, Gaffney Cline & Associates accredited the comprehensive study conducted in the Southern Santos assets in Brazil which were reflected in the sharp increase in the year-end 2C category.

The Board of Directors

Lysaker, April 20, 2009
Norse Energy Corp. ASA

Petter Mannsverk Andresen
Chairman of the Board

Bjarte Bruheim
Director

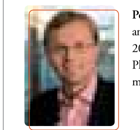
Kathleen Arthur
Director

Jon-Aksel Torgersen
Director

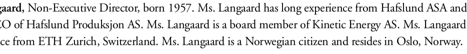
Lise Heien Langaard
Director

Øivind Risberg
Chief Executive Officer

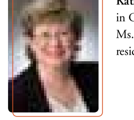
BOARD OF DIRECTORS



Petter Mannsverk Andresen, Chairman of the Board, born 1964. Mr. Mannsverk Andresen is partner with marchFIRST, an advisory and investment company. Mr. Mannsverk Andresen was head of Enskilda Corporate Finance from 1997 to 2000. Other positions include Corporate Finance senior staff member in Handelsbanken Markets, Shipping Analyst in R.S. Platou Securities and Senior Project Leader in Arkwright. Mr. Mannsverk Andresen graduated from Oslo Business Management Institute in 1990. Mr. Mannsverk Andresen is a Norwegian citizen and resides in Oslo, Norway.

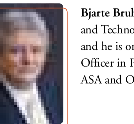


Lise Heien Langaard, Non-Executive Director, born 1957. Ms. Langaard has long experience from Hafslund ASA and is currently the CEO of Hafslund Produksjon AS. Ms. Langaard is a board member of Kinetic Energy AS. Ms. Langaard holds a master of science from ETH Zurich, Switzerland. Ms. Langaard is a Norwegian citizen and resides in Oslo, Norway.



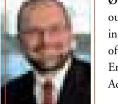
Kathleen Arthur, Non-Executive Director, born 1953. Ms Arthur is a former Vice President Exploration and Production in Chevron Corporation. Ms. Arthur has considerable operational experience, in addition to various board positions. Ms. Arthur currently serves as a board member of TGS Nopec Geophysical ASA. Ms Arthur is a Canadian citizen and resides on Vancouver Island, Canada.

Jon-Aksel Torgersen, Non-Executive Director, born 1952. Mr. Torgersen is CEO of Astrup Fearnley AS, an international brokerage house involved in shipping, offshore, finance and energy. Mr. Torgersen is a Board member of I. M. Skaugen ASA, Chairman of the Board of Atlantic Container Line AB, Chairman of the Board of Finnlines Plc, and Board member of a number of private companies involved in shipping, energy, financial services and real estate. Mr. Torgersen graduated from the University of St. Gallen, Switzerland with an MBA in 1975. Mr. Torgersen is a Norwegian citizen and resides in Oslo, Norway.

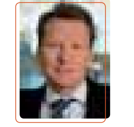


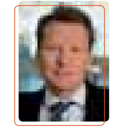
Bjarte Bruheim, Non-Executive Director, born 1955. Mr. Bruheim is a graduate of the Norwegian University of Science and Technology with an MSc in physics and electronics. Mr. Bruheim has considerable business and operational experience, and he is one of the founders of Petroleum Geo-Services ASA. Mr. Bruheim served as President and Chief Operating Officer in PGS until 2001, and he currently holds multiple board positions, among others in Electromagnetic Geoservices ASA and Odim ASA.

SENIOR MANAGEMENT



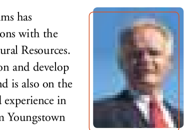
Øivind Risberg, Chief Executive Officer of the Norse Group since 1991, born 1958. He was the cofounder and CEO of our US activity and has lived in Houston, Texas since 1993. Mr. Risberg divested most all of the US natural gas business in 1997 and focused on building Norse Energy's US future in the Appalachian Basin. Mr. Risberg has been the Chairman of the Board, CEO and President of Norse Energy Corp. USA since 1993. Mr. Risberg is Chairman of the Board of Norse Energy do Brazil. He holds a Bachelor of Science degree from the University of Oslo, Norway, and a Bachelor of Business Administration degree from the Norwegian School of Management. Mr. Risberg is a citizen of Norway.





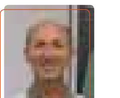
Anders Kapstad, Chief Financial Officer, born 1964. Mr. Kapstad joined Norse Energy Corp in August 2005. Mr. Kapstad holds a Bachelor of Science degree from the University of San Francisco and an MBA from SDA Bocconi in Milan, Italy. Mr. Kapstad has 15 years of investment banking experience, holding positions within equity sales, portfolio management, private banking and corporate finance. Mr. Kapstad is a Norwegian citizen and resides in Oslo, Norway.

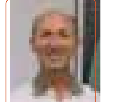
Kjetil Solbrække. Chief Executive Officer Norse Energy do Brasil S.A., born 1962. In 1989 he completed his degree in Economics at the University of Oslo. After graduation he worked for the Ministry of Petroleum and Energy in Norway for six years. Mr. Solbrække joined Hydro in 1998, where he held many 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 1st 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. Mr. Solbrække is a Norwegian citizen and resides in Rio de Janeiro, Brazil.



Mark A. Williams. Executive Vice President M&A and Finance in the United States, born 1955. Mr. Williams has responsibilities of Business Development, Finance, Pipeline and Accounting, and he also holds several positions with the subsidiaries as: President, Nornew Energy Supply, President, Drillco, Inc. and President, Mid-American Natural Resources. Mr. Williams was recently promoted to his new corporate position to create a Business Development Division and develop a new Merger and Acquisition Group. Mr. Williams has 28 years of experience in the oil and gas industry and is also on the Board of Directors for the Pennsylvania Oil and Gas Association. Mr. Williams has extensive knowledge and experience in natural gas drilling, production and marketing. He holds a Bachelor of Business Administration Degree from Youngstown State University. Mr. Williams is a US citizen and resides in Pittsburgh, PA, USA.

Stuart Loewenstein, Executive Vice President of Exploration and Development in the United States, born 1960. In 1983 Mr. Loewenstein completed a Bachelors degree in geology from the State University of New York at Buffalo, and did graduate work in geology with a concentration in geophysics at the University of Buffalo from 1983 to 1985. Since that time, he has worked as a geologist, geophysicist and manager in the oil and natural gas industry in the Appalachian Basin, including President of Quest Energy which he founded in 1997 and was co-owner until its sale in 2006. Mr. Loewenstein has co-authored numerous professional papers on geology and exploration methods in the Appalachian Basin. Mr. Loewenstein is a member of the American Association of Petroleum Geologists and the Society of Exploration Geophysicists and has served on the Board of Directors of the Independent Oil and Gas Association of New York. He joined Norse Energy in early 2006. Mr. Loewenstein is a US citizen and resides in Buffalo, New York State, USA.





Steve Novakowski, Executive Vice President of Engineering in the United States, born 1959. Mr. Novakowski began his career in the energy industry in 1981 as a petroleum engineer for Halliburton working primarily in the northern Appalachian Basin of the U.S. where he gained technical proficiency in the areas of cementing, completion and stimulation of oil and gas wells. From 1988 to 1990, he was a drilling and production engineer for a mid-sized independent producer and became manager of the northeastern operations for that company in 1990, being directly responsible for 1100 Appalachian Basin oil and gas wells and a staff of 35 employees. In 1994, he became an independent drilling, production and completions consultant with continuing Appalachian emphasis until joining Nornew full time as staff engineer in 2001. Mr. Novakowski holds a Bachelor of Science degree in Petroleum and Natural Gas Engineering from Pennsylvania State University. Mr. Novakowski is a US citizen and resides in North East, Pennsylvania, USA.

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Income Statements

(Amounts in USD 1,000, except share information) Years ended December 31,	Note	2008	2007	2006
Revenues		300,949	214,867	186,664
Other Income		33,559	-156	-
Total Revenues and Other Income	3, 4, 10	**334,508**	**214,711**	**186,664**
Expenses				
Trading purchase of natural gas		-206,500	-141,588	-135,329
Production costs	4	-27,949	-25,802	-20,550
Exploration and dry hole cost	4	-27,225	-2,629	-1,660
Depreciation	4, 8, 9	-16,719	-28,901	-15,124
Impairment	8, 9	-25,911	-26,159	-
General and administrative expenses	5	-31,605	-17,870	-13,261
Total operating expenses		**-335,909**	**-242,949**	**-185,924**
Operating profit / (-) loss	4	**-1,401**	**-28,327**	**740**
Interest income	4, 10	5,190	4,002	2,646
Interest expense	4, 10	-28,961	-20,064	-11,136
Net foreign exchange gain / (-) loss	4, 10	5,828	4,146	1,354
Other financial items	3, 10	7,714	3,711	-6,801
Net financial items		**-10,229**	**-8,205**	**-13,937**
Net profit / (-) loss for the year before tax and minority interests		**-11,630**	**-36,442**	**-13,197**
Income tax expense	4, 6	1,090	7,737	876
Net profit / (-) loss for the year before minority interests		-10,540	-28,705	-12,321
Minority interest		-	-	-56
Net profit / (-) loss for the year	4	**-10,540**	**-28,705**	**-12,377**
Earnings / (-) loss per share				
Net profit / (-) loss for the year before tax and minority interests	7	-0.03	-0.10	-0.04
Net profit / (-) loss for the year	7	-0.03	-0.08	-0.04
Diluted earnings per shares	7	-0.03	-0.08	-0.04

The Board of Directors

Lysaker, April 20, 2009
Norse Energy Corp. ASA

Petter Mannsverk Andresen
Chairman of the Board

Bjarte Bruheim
Director

Kathleen Arthur
Director

Jon-Aksel Torgersen
Director

Lise Heien Langaard
Director

Øivind Risberg
Chief Executive Officer

Consolidated Balance Sheet

(Amounts in USD 1,000) As of December 31,	Note	2008	2007
ASSETS			
Non-current assets			
Intangible assets			
Licence interests and exploration assets	8	132,386	119,117
Goodwill and other intangible assets	9	5,755	5,790
Deferred tax asset	6	10,105	-
Total intangible assets		**148,246**	**124,907**
Properties and field investments			
Field investment and equipment	8	150,218	159,160
Other fixed assets	8	6,252	4,459
Total properties and field investments		**156,470**	**163,619**
Investment in equity accounted investees	3	1,852	1,734
Other non-current assets	10	11,911	18,446
Total non-current assets		**318,479**	**308,706**
Current assets			
Inventory	12	290	3,051
Accounts receivable and other short-term assets	10	47,102	43,523
Cash and cash equivalents	10, 13	32,207	43,747
Assets held for sale	2	-	36,568
Total current assets		**79,599**	**126,889**
TOTAL ASSETS	4	**398,078**	**435,595**

Consolidated Balance Sheet

(Amounts in USD 1,000) As of December 31,	Note	2008	2007
EQUITY AND LIABILITIES			
Equity			
Issued capital		43,614	43,526
Share premium		261	76,983
Treasury shares		-14	-14
Other paid-in capital		76,983	-
Total paid-in equity		**43,861**	**120,495**
Other equity		-53,095	-37,072
Total equity	14	**67,749**	**83,423**
Long-term liabilities			
Long-term interest bearing debt	10, 15	145,360	194,660
Deferred tax liability	6	11,788	14,460
Asset retirement obligations	16	4,874	12,632
Other long-term liabilities	10	20,681	29,529
Total long-term liabilities		**182,703**	**251,281**
Current liabilities			
Asset retirement obligation	16	10,950	-
Accounts payable	10	26,563	48,610
Short-term interest bearing debt	15	84,007	48,765
Other current liabilities	6, 10	26,106	1,920
Liabilities associated with Assets held for sale	2	-	1,596
Total current liabilities		**147,626**	**100,891**
TOTAL EQUITY AND LIABILITIES	4	**398,078**	**435,595**

Consolidated Statement of Changes in Equity

(Amounts in USD 1,000)	Note	Nominal share capital	Share premium reserve	Treasury shares	Other paid in capital	Retained earnings	Other Equity	Total
At 1 January, 2007		43,526	76,983	-14	-	-16,858	1,578	105,215
Cash flow hedges amount recognized in income	10	-	-	-	-	-	-564	-564
Cash flow hedges amount recognized in equity	10	-	-	-	-	-	-749	-749
Employee share options	5, 11	-	-	-	-	-	768	768
Currency translation and other adjustments		-	-	-	-	-41	7,499	7,458
Net profit/(loss) for the year	4	-	-	-	-	-28,705	-	-28,705
Total income and expense for the year		-	-	-	-	-28,746	6,954	-21,792
At December 31, 2007		43,526	76,983	-14	-	-45,604	8,532	83,423
At 1 January, 2008		43,526	76,983	-14	-	-45,604	8,532	83,423
Share premium reserve reduction (not formally registered)	14	-	-76,983	-	76,983	-	-	-
Share issue	14	88	261	-	-	-	-	349
Cash flow hedges amount recognized in income	10	-	-	-	-	-	26	26
Cash flow hedges amount recognized in equity	10	-	-	-	-	-	-	-
Employee share options	5, 11	-	-	-	-	-	580	580
Currency translation and other adjustments		-	-	-	-	-	-6,089	-6,089
Net profit/(loss) for the year	4	-	-	-	-	-10,540	-	-10,540
Total income and expense for the year		-	-	-	-	-10,540	-5,483	-16,023
At December 31, 2008		43,614	261	-14	76,983	-56,144	3,049	67,749

Consolidated Statement of Cash Flow

(Amounts in USD 1,000)

Years ended December 31,	Note	2008	2007
Cash flows from operating activities			
Net profit / (-) loss	4	-10,540	-28,705
Adjustments to reconcile net profit / (-) loss to cash flows from operating activities			
Depreciation	8, 9	16,719	28,901
Impairment and non-cash items of dry-hole & exploration	8, 9	16,600	26,159
Market adjustments, warrants, options and shares	10	-27,158	-2,516
Other non-cash items		41,176	-12,709
(Gain)/Loss on sale of property, plant & equipment	2	-27,981	-1,470
Interest income	10	-5,190	-4,002
Interest expense	10	28,934	20,064
Share of net loss/(gain) of associate	3	58	423
Working capital adjustment:			
Change in accounts receivable and other short-term assets		-6,621	-22,525
Change in accounts payable	10	-22,047	3,542
Change in other assets and liabilities	10	1,974	-4,349
Net cash flows from operating activities		**5,924**	**2,813**
Cash flows from investing activities			
Investments net of cash, in acquired business		-	-5,087
Proceeds from sale of acquired assets	2	66,652	4,000
Investment in shares		-446	-
Acquisition of oil put options		-	-
Interest received		9,023	3,515
Investment in property, plant and equipment	8	-71,969	-59,214
Investment in other assets		-2,313	-
Net cash flows from investing activities		**947**	**-56,786**
Cash flows from financing activities			
Net proceeds from issuance of shares	14	349	-
Proceeds from issuance of long-term debt	15	50,796	112,335
Proceeds from issuance of short term debt	15	42,061	-
Interest paid		-22,697	-17,890
Repayment of debt	15	-101,969	-59,964
Proceed from settlement of derivatives	10	14,853	-
Net cash flows from financing activities		**-16,606**	**34,481**
Effect of foreign currency translation adjustment on cash balances		**-1,804**	**7,499**
Change in cash and cash equivalents during the period		**-11,539**	**-11,993**
Cash and cash equivalents at beginning of the period	13	**43,747**	**55,740**
Cash and cash equivalents at the end of period	13	**32,207**	**43,747**

+ NOTES to Consolidated Financial Statements

NOTE 1 Significant accounting principles

Corporate information
Norse Energy Corp. ASA and its subsidiaries ("Norse Energy", "the company" or "the Group") was established as a result of the merger between NaturGass (USA) AS (NG) and Northern Oil ASA (NOI) in 2005. The transaction was effective for accounting purposes, February 25, 2005.

Norse Energy is an independent oil and natural gas company engaged in the acquisition, exploration and development of oil and natural gas properties in Brazil and in the US. In the US, the company operates the majority of its natural gas properties, and in addition owns and operates gathering and transmission pipeline systems for natural gas and is engaged in marketing of natural gas through its Energy Marketing division.

The company is the 100% owner (direct and indirect) of all active companies in Brazil and the US, see note 22 for information on Company Structure.

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

Statement of compliance and Basis of preparation
The consolidated financial statements for the year ended December 31, 2008 were authorized for issue and signed by the Board of Directors on April 20, 2009. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and related interpretations, as well as additional disclosure requirements from the Norwegian Accounting Act and Oslo Stock exchange regulations, effective for the year ended December 31, 2008.

In preparing the consolidated financial statements for the current year, the company has adopted the following amendments to IFRS and new standards:
- IFRS 8, Operating Segments
- IFRIC 11, Group and Treasury Share Transactions (effective January 1, 2008)
- IFRIC 12, Service Concession Arrangements (effective January 1, 2008)
- IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements (effective January 1, 2008)

Basis of consolidation
The consolidated accounts comprise the parent company Norse Energy Corp. ASA and its subsidiaries in Canada, Brazil and the US.

The group presents its financial statements in USD. This is also the functional currency for all subsidiaries except for Rio das Contas that has Brazilian Real as the functional currency. Consistent accounting policies are applied in the accounts of the companies and their respective subsidiaries, for the purpose of preparing the consolidated figures. All significant inter-company transactions, receivables and liabilities are eliminated.

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

If the initial accounting for a business combination cannot be determined by the end of the period in which the combination is effected because the fair values to be assigned to assets and liabilities or the cost of the combination can be determined only provisionally, the provisional values are used. However, these provisional values may be adjusted within 12 months from the date of the combination.

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

Foreign currency translation
Functional currency is the currency of the primary economic environment in which each company operates and is normally the currency in which the company primarily generates revenues and incurs expenses.

In individual companies, transactions in foreign currencies are initially recorded in the functional currency by applying the rate of exchange prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange prevailing at the balance sheet date. Any resulting exchange differences are included

in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into the functional currency using the rates of exchange as at the dates of the initial transactions.

In the consolidated financial statements, the assets and liabilities of non-USD functional currency subsidiaries, including related goodwill, are translated into USD at the rate of exchange ruling at the balance sheet date. The results and cash flows of non-USD functional currency subsidiaries are translated into USD using applicable average rates as an approximation for the exchange rates prevailing at the dates of the 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 for 2008 were;

	2008		2007	
	Average rate	Reporting date rate	Average rate	Reporting date rate
Norwegian kroner	5,6361	6,9989	5,8600	5,4110
Brazilian Real	1,8375	2,3370	1,9483	1,7713

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

Associates are accounted for using the equity method and are initially recognized at cost. The company's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements includes the company's share of the income and expenses and equity movements of the investee, after adjustments to align the accounting principles of the investee to those of Norse Energy, from the date that significant influence commences until the date such influence ceases. When the company's share of losses exceeds the interest in the investee, the carrying amount of the interest is reduced to zero and further losses are only recognized to the extent that the company has an obligation or has made payments on behalf of the investee.

Where a group entity transacts with an associate of the company, profits and losses are eliminated to the extent of the company's interest in the relevant associate.

Interests in jointly controlled assets and joint venture entities
Certain of the group´s activities are conducted through joint ventures where the venturers have a direct interest in and jointly control the assets of the venture. The income, expenses, assets and liabilities of these jointly controlled asets are included in the consolidated financial statements in proportion to the group´s interest.

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

Gathering and transmission revenue
Revenues from the transportation of natural gas are recognized based on volumes delivered in accordance with contractual terms. Revenues from excess retained fuel is a component of the company´s tariff structure and is included within other income (refer to note 4).

Energy Marketing Revenue - Trading
Revenues for the energy marketing are recognized in the period in which the commodity is delivered to customers. Sales revenues and purchases related to the Energy Marketing division are recorded gross, as the entity takes title to the gas it buys and bears the risks associated with the trading cycle such as marketing risk and credit risk.

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

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

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

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

Current and deferred tax for the period
Current and deferred tax are recognized as expense or income in the income statement, except when they relate to items recognized directly to equity, in which case the tax is also recognized directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of Norse Energy's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

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

Non-current assets held for sale
Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continued use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. The company's management must be committed to the sale, and the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Once property, plant and equipment and intangible assets are classified as held for sale, no further depreciation will take place.

Goodwill
Excess value on the purchase of operations that cannot be allocated to identifiable assets or liabilities on the acquisition date is classified in the balance sheet as goodwill.

The goodwill acquired in a business combination is measured after initial recognition at cost less any accumulated impairment losses. The goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired.

Property, plant, equipment and intangible assets
Licenses & exploration assets and property, plant and equipment are recorded in the balance sheet at their historical cost less accumulated depreciation and any impairment charges.

The company accounts for its natural gas exploration, development and production activities under the successful efforts method of accounting. Under this method, costs of acquiring properties, costs of drilling development wells, and costs of drilling successful exploratory wells are capitalized. Costs without any identifiable future benefit are expensed, like geological and geophysical costs, and the costs of drilling exploratory wells that do not find proved reserves are expensed. Costs for future abandonment of the offshore and

onshore facilities are capitalized as part of the investment, and accrued as a liability. Interest costs related to financing for fields under development are being capitalized.

Capitalized costs and production equipment are depreciated under the unit-of-production method based on estimated proven developed oil and natural gas reserves, while depreciation of licenses & exploration assets are based on proven developed and undeveloped reserves. The depreciation base includes total capitalized costs and it is reduced with salvage value.

In classifying costs, a distinction is made between tangible and intangible assets. This assessment is made on a field-by-field basis. Costs relating to drilling exploratory wells and costs relating to acquisition of exploration licenses are initially classified as intangible assets. Such assets will be re-classified to tangible assets when the technical feasibility and commercial viability of extracting the resources are demonstrable.

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

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

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

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

Leasing
The group is leasing assets in the exploration and production phase which most of the risk and return associated with the ownership of the assets have not been transferred to the Group. The leases are classified as operating leases. Lease payments are classified as operating costs and recognised in the income statement in a straight line during the contract period.

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

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

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

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

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

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

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

Pension expenses
Norse Energy has no pension liabilities or pension plans for foreign subsidiaries. All employees in Norway are organized under a defined contribution plan, in which pension fund contributions are charged to profit upon payment.

Inventory
Inventory consists of crude oil and are valued at lower of production cost and net realizable value. Production cost consists of cost of direct material, labor and a proportion of corporate overhead cost. Net realizable value is the estimated selling price in the ordinary course of business, less estimated selling expenses.

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

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

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

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

Cash-flow hedges
Cash-flow hedges represent the total net change in the fair value of the cash-flow hedge until the hedged cash flow arises or is no longer expected to arise.

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

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

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

Asset retirement obligation
Net present value of the estimated asset retirement obligation is recognized as soon as the obligation to dismantle and remove production assets, pipelines and other installations exists. The corresponding cost of the retirement obligation is capitalized as part of the development cost or acquisition cost and depreciated. The asset retirement obligation is accreted to the discounted liability, with the accretion of the discount being classified as interest expense.

Provisions
Provisions are recognized when the company has a valid liability (legal or estimated) as a result of events that have taken place and it can be proven probable (more probable than not) that a financial settlement will take place as a result of this liability, and that the size of the amount can be measured reliably. Provisions are reviewed on each balance sheet date and their level reflects the best estimate of the liability. When the effect of time is insignificant, the provisions will be equal to the size of the expense necessary to be free of the liability. When the effect of time is significant, the provisions will be the present value of future payments to cover the liability. Any increase in the provisions due to time is presented as interest costs. The present obligation under onerous contracts are recognized as provisions.

IFRS and IFRIC Interpretations Not Yet Effective
As of the date of authorization of these financial statements, the standards and interpretations detailed below are anticipated to be relevant to Norse Energy's financial reporting under IFRS.

- Amendment to IFRS 2, Share-Based Payment: Vesting Conditions and Cancellations (effective January 1, 2009)
- Amendment to IFRS 3, Business Combinations (effective July 1, 2009)
- Amendment to IAS 1, Presentation of Financial Statements: A Revised Presentation (effective January 1, 2009)
- Amendment to IAS 23, Borrowing Costs (effective January 1, 2009)
- Amendment to IAS 27, Consolidated and Separate Financial Statements (effective January 1, 2010)
- Amendments to IAS 32, Financial Instruments: Presentation and IAS 1, Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation (both effective January 1, 2009)
- Amendments to IAS 39 Financial Instruments: Measurement and Recognition – Eligible hedged items.
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation
- IFRS 1 and amendment to IAS 27, Cost of an investment in a subsidiary, jointly controlled entity or associate (effective date Janyary 1, 2009
- IAS 39 and IFRS 7 amendment, Reclassification of financial assets (effective for accounting periods commencing on July 1, 2008)
- IFRS 7, Improving disclosures about financial instruments (effective date January 1, 2009)
- IFRIC 9 and IAS 39 amendment, Embedded derivatives (effective date June 30, 2009)

The effective dates listed above are applicable to accounting periods beginning on or after that specific date. The company plans to adopt the new standards and interpretations from each of the effective dates.

The company expects that adoption of the pronouncements listed above will not have any major impact on the company's financial statements in the period of initial application. However, such impacts are still being evaluated.

Operating segments
The Group has adopted IFRS 8 Operating Segments in advance of its effective date, with effect from 1 January 2008 (and restated 2007 figures accordingly). IFRS 8 defines operating segments as "components of an entity about which separate financial information is available and that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance". The Group describes the nature of the identified segments and discloses financial information related to these in a separate disclosure note. To the extent that the operating segments are not identified based on the differences in related products and services or differences in geographical area of operations, additional information is disclosed.

Implementing IFRS 8 has not lead to any significant change in the reportable segments although the terms primary and secondary reporting format no longer are in use.

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

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

Exploration and leasehold costs
Norse Energy Corp capitalizes the costs of drilling exploratory wells and leasehold costs pending determination whether the wells have found proved oil and gas reserves. Judgments on whether these expenditures should remain capitalized or charged to profit due to impairment in the period may materially impact the operating income for the period. The carrying amounts for licenses and exploration costs were USD 132 million and USD 119 million in 2008 and 2007, respectively.

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

Reserves
The company uses reserve reports prepared by independent reservoir engineer firms (Gaffney Cline & Associates for reserves in Brazil and Schlumberger Data & Consulting Services for reserves in the US) as basis for its investment plans in oil and gas properties. Such reports are obtained at least annually to establish the expected production profiles for the fields in production and the expected economic lifetime of the fields. Any significant reduction in reserves might lead to a write down of field investments through impairment tests, increased future depreciations and alterations of planned capital expenditures. The carrying amounts for field investments were USD 122 million and USD 139 million in 2008 and 2007, respectively.

Inventory
Estimated selling price is normally based on Brent Blend and the estimated selling expenses are based on average direct production costs including royalties. The carrying amounts for inventory were USD 0.3 million and USD 3.1 million in 2008 and 2007, respectively.

Asset Retirement Obligation
When production from a well or a field ceases, the company is obligated to shut in the well and remove installation from the well or field. Provisions for these costs are the best available estimates from the field operator, based on today's technology and today's prices for equipment and manpower. The amount recognized is the estimated expenditures determined in alignment with the field operator, local conditions and requirements. Asset retirement obligations were booked at USD 15.8 million and USD 12.6 million in 2008 and 2007, respectively.

Technical risk in development of Brazilian oil and gas fields and production start-up
The development of the Brazilian oil and gas fields in which Norse Energy 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.

Tax
Income tax expense and capitalized deferred tax is based on estimated future taxable profits and is depending on changes in tax legislation in Norway, Brazil and USA.

Financial Instruments
Valuation of unquoted financial instruments recognized at fair value, is based on estimated future cash flows and discounted with interest rates prevailing December 31, 2008

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

Note 6 – Income Tax
Note 8 – Exploration assets and Property Plant & Equipment
Note 9 – Goodwill and other intangible assets
Note 10 – Financial Instruments
Note 16 - Asset retirement obligation

NOTE 2

Disposal of assets

Sale of Medina Field Assets
On October 29, 2007, Norse Energy Corp. ASA accepted an offer to sell all of its Medina Field assets in New York and Pennsylvania. On January 17, 2008, the company entered into a Purchase and Sale Agreement with EnerVest, Ltd. and certain of its affiliated parties to sell these assets for a consideration of USD 66.7 million. The company closed this sale in March 2008 after the purchaser had performed a due diligence. The effective date of the agreement was January 1, 2008, and the closing date of the agreement was March 14, 2008.

The gain on the disposal, which is included in revenues, was USD 28.0 million.

NOTE 3 Interest in joint ventures and associates

Brazil
Santos Basin
Norse Energy participates in multiple E&P Jointly Controlled Field Assets. The company's entrance in Brazilian oil industry was made by participating in three oil development and production licenses located in the Santos basin outside the southeast coast of Brazil together with the partners Petrobras (Operator) and Queiroz Galvão. These licenses are for Coral, Estrela-do-Mar and Cavalo Marinho. Per year-end Norse Energy owns a 35% interest in Coral, 65% in Estrela-do-Mar and 50% in Cavalo Marinho.

The Coral field has been developed and in production since February 2003. The license partners have entered into joint venture agreements in respect to the exploration and development of the Coral and Estrela-do-Mar fields, and another similar agreement for the Cavalo Marinho field.

The partners in the Coral field have also entered into an oil sales agreement with Petrobras for the oil produced from the Coral field with price linked to Brent Blend. Norse Energy has only one market and one segment for its oil production activities; Brazil. In late 2008, the production from Coral was rapidly declining and was stopped before year-end.

In the ANP (Brazilian Petroleum Agency) 9th bidding round held in November 2007, the company was awarded three blocks in the Santos basin; blocks S-M-1035, S-M-1036 and S-M-1100. Norse Energy is the operator of these blocks with an interest of 50%. The contracts were signed in 2008.

Camamu-Almada Basin
Norse Energy's asset portfolio in Brazil also includes three distinct Jointly Controller Field Assets in the Camamu-Almada offshore basin, located on the northeastern coast of the country: BCAM-40 Block, Sardinha field, as well as BM-CAL 5 and BM-CAL 6 exploration blocks.

The concession for BCAM-40, covering approximately 935 km², was awarded to Petrobras in 1998. In 1999 Petrobras presented a farm in opportunity for participation in the concession. As a result of that offering a Consortium Contract, a Participation Agreement and a Joint Operating Agreement among Petrobras, Queiroz Galvão and Petroserv were executed in 2000. In 2006, Norse Energy finalized the acquisition of Rio das Contas Petróleo Ltda from Petroserv, a company that participates in the consortium. Two important discoveries were made on this block: the Manati gas field (which production commenced in 2007), currently the second biggest unassociated gas field in Brazil, and the BAS-131 oil and gas accumulation, which is under evaluation. Petrobras operates the exploration and the development and production activities in the block and holds 35% of the interests, while Queiroz Galvão (45%), Brasoil do Brasil (10%) are the partners along with Rio das Contas who participates with 10%.

The Sardinha field lies about 3 km from the coast line of Bahia State. It is a gas field with an oil rim on the eastern side of the structure. The operator is El Paso Corporation (40%) and the partners are Petrobras (40%) and Norse Energy (20%). The consortium is currently discussing the development plan of the field.

Norse Energy is part of another Joint Operatin Agreement in the Camamu-Almada basin for the exploration blocks BM-CAL 5 and BM-CAL 6. Both blocks comprise an area of 1,120 km². The partners in the Jointly Controlled Field Asset are; Petrobras (operator) that holds 45% interest, Queiroz Galvão with 18.34%, El Paso with 18.33% and Norse Energy, through its subsidiary Rio das Contas with 18.33%. The exploration blocks BM-CAL 5 and BM-CAL 6 were impaired and written of in 2008

Lastly, Norse Energy holds interests in a Jointly Controlled Field Assets related to the concession of the exploration blocks BT-REC-22 and BT-REC-30. These blocks sum a total of 51 km² and are on the first exploration period. The composition of the consortium that holds the concession is: Starfish Oil and Gas (operator with 40%), Norse Energy (30%) and Dove Energy (30%).

Development and production is in accordance with the joint operating agreements. The joint operating agreements correspond to a widely adopted practice in the international oil industry, where companies endeavor to share the risks inherent in exploration and production projects.

USA
In the US certain of the natural gas wells are in joint arrangements with other partners. The joint operating agreements correspond to a widely adopted practice in the international oil industry, where companies endeavor to share the risks in exploration and production projects.

Associates
In the US, the Company has interests in two companies that are treated as associates companies.

Somerset Production LLP is a Delaware limited company engaged in the business of oil and gas exploration and production in the Appalachian Basin. Although Norse Energy holds less than 20% of the common shares in Somerset and it has less than 20% of the voting power in the shareholder's meetings, the Company exercises significant influence by virtue of a contractual right to appoint one director to the Board of Directors in Somerset, as well as influence on day-to-day operations together with technical expertise provided by Norse Energy.

Evergreen Investments LLC, an entity which sole purpose has been operating a rig, disposed of most of its assets to a new entity late December 2008 – Drillco – that is 100% owned by Norse Energy. There are still some assets remaining in Evergreen. Norse Energy is – together with the other owners – still considering whether the remaining assets shall be distributed to the owners and the entity liquidated.

In accounting for the interest in associates, the company has made certain adjustments to the financial statements provided from the associates to align this to the accounting principles of Norse Energy. Most notably, adjustments have been made to apply the successful efforts method of accounting as opposed to the full cost method (Somerset only). A summary of the financial figures (unadjusted) from the Associates for 2008 is provided below.

(Amounts in USD 1,000) Associate	Norse Energy interest	Total Assets	Total Liabilities	Gross revenue	Profit after tax	Norse Energy share of Operating profit	Net book value of investment
Somerset	18.1%	20,454	2,529	245	-93	-17	1,565
Evergreen	33.33%	860	-	781	349	116	287

NOTE 4 Operating segments

The Group has four reportable segments, which are the Groups strategic business units. The units offer different products and are managed separately because they require different technological and different financial and marketing strategy. The following summary describes the operations in each of these segments:

- **Exploration and Production of oil and natural gas in Brazil (Brazil E&P)**
Norse Energy participates in a number of oil and natural gas exploration and production licenses located in the Santos basin outside the south-east coast of Brazil and in the Camamu-Almada basin offshore Brazil in the state of Bahia. All revenues in this segment is from sales to one customer, Petrobras.

- **Exploration and Production of natural gas in the US (USA E&P)**
The US E&P operates in two main areas, the Lake Shore field of western New York and northwestern Pennsylvania (the Jamestown area) and the Bradley Brook field in central New York. The company operates ~400 wells and owns an interest in several non-operated wells. The divisions land, geological and geophysical activities are located in Buffalo, NY.

- **Gathering and Transmission of natural gas in the US (USA G&T)**
The company owns and operates ~500 miles of gathering and transmission pipelines. One pipeline system consists of about 320 miles of high pressure steel pipeline capable of gathering natural gas from over 6,500 gas wells located in western New York and northwestern Pennsylvania. The lines have delivery points into major interstate pipelines, as well as to local end users.

- **Energy Marketing Division in the US (USA EM)**
The EM division is made up of Mid American, an established energy marketing and trading company in the Appalachian region. The focus of the EM division is to add value to the company's business by attracting gas flow to its proprietary pipelines and by optimizing the value of the Norse Energy's gas production and that of the other local Appalachian producers. The division offers a full range of services to the natural gas producers, commercial and industrial consumers, and pipeline companies from the Ohio Valley to the East Coast of the US.

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

Information regarding the Group´s reportable segments is presented below. Amounts reported for the prior year have been restated to conform to the requirements of IFRS 8.

2008

(Amounts in USD 1,000)	Brazil E&P	USA E&P	USA G&T	USA EM	Corporate and eliminations	Consolidated
Revenues – external	73,551	12,887	3,540	216,549	-	306,527
Medina gain	-	27,981	-	-	-	27,981
Revenues – within the group	-	120	1,467	8,667	-10,254	-
Total revenue	**73,551**	**40,988**	**5,007**	**225,216**	**-10,254**	**334,508**
EBITDA	**19,766**	**25,874**	**3,060**	**6,250**	**-13,721**	**41,229**
Interest revenue	4,162	289	32	210	497	5,190
Interest expense	-15,804	-621	-653	-45	-11,838	-28,961
Foreign exchange gain/(loss)	-16,460	-	-	-	22,288	5,828
Depreciation, amortization and impairment	-37,124	-4,106	-974	-34	-392	-42,630
Share of profit of an associate and/or joint ventures	-	-58	-	-	-	-58
Income tax	10,674	-10,032	-620	-2,695	3,763	1,090
Other financial items – gains/(losses)	-	-	-58	570	7,260	7,772
Profit after tax	**-34,786**	**11,346**	**787**	**4,256**	**7,857**	**-10,540**
Material non-cash items						
Impairment and non-cash items of dry-hole & exploration	-16,600	-	-	-	-	-16,600
Depreciation	-11,213	-4,012	-1,068	-34	-392	-16,719
Warrants effect	-	-	-	-	8,096	8,096
Assets	**228,940**	**98,037**	**19,825**	**45,044**	**4,379**	**396,227**
Investment in associate and joint ventures	-	1,852	-	-	-	1,852
Total Assets	**228,940**	**99,890**	**19,825**	**45,044**	**4,379**	**398,078**
Total liabilitites	**215,412**	**71,183**	**16,650**	**32,087**	**-5,003**	**330,329**

2007

(Amounts in USD 1,000)	Brazil E&P	USA E&P	USA G&T	USA EM	Corporate and eliminations	Consolidated
Revenues – external	46,621	14,407	4,385	149,298	-	214,711
Revenues – within the group	-	-	2,261	8,949	-11,210	-
Total revenue	**46,621**	**14,407**	**6,646**	**158,247**	**-11,210**	**214,711**
EBITDA	**18,029**	**6,736**	**4,123**	**3,803**	**-5,869**	**26,823**
Interest revenue	2,142	47	49	453	1,311	4,002
Interest expense	-6,326	-842	-690	-3	-12,203	-20,064
Foreign exchange gain/(loss)	6,544	-	-	-	-2,398	4,146
Depreciation, amortization and impairment	-50,297	-3,391	-1,028	-45	-299	-55,060
Share of profit of an associate and/or joint ventures	-	-423	-	-	-	-423
Income tax	9,153	-286	-286	-1,367	523	7,737
Other financial items – gains/(losses)	-	-	-	-	4,134	4,134
Profit after tax from continuing operations	**-20,755**	**1,841**	**2,168**	**2,841**	**-14,801**	**-28,705**
Material non-cash items						
Impairment Coral	-26,159	-	-	-	-	-26,159
Depreciation	-24,138	-3,391	-1,063	-45	-264	-28,901
Warrant effect	-	-	-	-	-3,235	-3,235
Assets	**271,783**	**74,471**	**23,553**	**38,446**	**25,608**	**433,861**
Investment in associate and joint ventures	-	1,734	-	-	-	1,734
Total Assets	**271,783**	**76,205**	**23,553**	**38,446**	**25,608**	**435,595**
Total liabilitites	**207,050**	**68,397**	**21,106**	**23,140**	**32,479**	**352,172**

Geographical segment (Amounts in USD 1,000)	Brazil		North-America		Corporate and eliminations		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
Revenues from external customers	73,551	46,621	260,957	168,090	-	-	334,508	214,711
Non-current assets	183,675	227,154	110,850	61,336	86	38	294,611	288,528

Non-current assets for this purpose consist of property, plant and equipment and intangible assets (excl. Financial instruments, deferred tax assets and post-employment benefit assets)

(Amounts in USD 1,000) Revenue from major products and services	2008	2007
Natural gas trading	213,706	148,398
Oil sales	36,141	27,895
Natural gas sales	47,877	33,274
Gathering and transmission income	3,225	5,300
Medina gain	27,981	-
Mark-to -market adjustments and other income	5,578	-156
Total	334,508	214,711

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

Inter-segment revenues are eliminated on consolidation. Deliveries between the segments are based on arm's length principle i.e the prices prevailing in transactions with external customers that are comparable to the intercompany transaction.

Segment operating profit includes revenues and expenses from inter-segment transactions.

NOTE 5 General and administrative expenses

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

(Amounts in USD 1,000) Wages and other compensations to employees	2008	2007	2006
Wages	9,519	6,135	4,309
Employer's contribution	1,636	1,621	427
Other compensation	2,805	952	590
Total	13,960	8,707	5,326

Number of employees	2008	2007	2006
Norway	5	5	3
USA	80	68	55
Brazil	25	21	19
Canada	1	1	1
Total	111	95	78

Board of Directors statement on remuneration of executives
Statement for the current year (2009)
In accordance with the Norwegian Public Limited Liability Companies Act §6-16a, the Board of Directors must prepare a statement on remuneration of executives.

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

Norse Energy has established a compensation program for the executive management that reflects the responsibility and duties as management of an international oil and gas company, and at the same time contributes to added value for the company's share-holders. 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 company is an attractive employer that can obtain a qualified workforce.

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

The 2008 AGM approved a new stock option scheme for the company's key employees and consultants with a limit of 8 million new shares with par value NOK 0.88. The program corresponds with the share option program approved in 2006. The Board of Directors is authorized to resolve the further details of the share option scheme.

The company has established a pension scheme for all employees in Norway that the executive management in Norway participates in. There are no agreements in place for severance payment for executive management except for the CEO.

The remuneration of the company's CEO and the executive management in the prior year (2008) was based on the same general principles as disclosed above for the current year.

Management remuneration
Executive management is considered to consist of the CEO (who is also Head of US operations), CFO and Head of Brazil operations.

Executive management remuneration is summarized below:

(Amounts in USD 1,000) Executive management remuneration 2008	Salary	Bonus	Benefits	Pension costs	Value of options issued	Total
Øivind Risberg (CEO)	529	200	43	21	121	914
Anders Kapstad (CFO)	259	35	27	9	46	376
Kjetil Solbrække (Head of Brazil Operations)	325	-	-	-	-	325
Total Remuneration	1,113	235	70	30	167	1,615

Executive management remuneration 2007	Salary	Bonus	Benefits	Pension costs	Value of options issued	Total
Øivind Risberg (CEO)	520	-	17	-	324	861
Anders Kapstad (CFO)	239	99	-	22	81	440
José Almeida dos Santos (Director Brazil)	278	23	-	-	64	365
Total Remuneration	1,037	122	17	22	469	1,667

The CEO and the Head of the Brazilian operations have agreements of two year's salary in case of resignation. The CFO participates in the general pension scheme established in the parent company (see details on pension plan below). The company also has an employee options program, refer to note 11 for details.

The company has a long term note receivable to the CEO of USD 50,000. The note has no stated maturity date, is due on demand and bears an interest rate of Prime plus 0.5%.

The company has a long term note receivable to Kjetil Solbrække, Head of the Brazilian operations, of USD 856,000. The note principal is due in March 2013 and carries an interest of 3%. In addition, Kjetil Solbrække has 700,000 synthetic options in the subsidiary Norse Energy do Brasil.

Remuneration of members of the Board and committees of the Board is summarized below:

(Amounts in USD 1,000) Board of Directors	2008	Board fee 2007	2006
Petter Mannsverk Andresen, Chairman	62	64	23
Axel C. Eitzen, former Chairman	-	73	31
Joey S. Horn, Director	53	64	23
Lise Heien Langaard, Director	53	-	-
Jon-Axel Torgersen, Director	53	64	23
Bjarte Bruheim	-	-	-
Kathleen Arthur	-	-	-
Total	**221**	**265**	**100**

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 loans to the CEO and the Head of the Brazilian operations mentioned above.

Pension plan
Norse Energy does not have any pension plans in place for employees in Brazil and the US.

The parent 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 established a pension scheme in 2006 that meets the requirements of this law. In June 2007, the company changed the pension scheme to a defined contribution scheme. Subsequent to this change, no pension liability is recognized in the balance sheet. The total expense booked under the pension scheme was USD 67,000 and USD 30,000 for 2008 and 2007 respectively.

Auditor's remuneration
Sales, administrative and general expenses also include audit costs, tax services and advisory services. The company's General Meeting adopted Deloitte as Group Auditors from the financial year 2008. Thus the 2008 figures includes audit, tax and advisory services from both Deloitte and the predecessor Group Auditor Ernst & Young as set out in the table below:

(Amounts in USD 1,000) Expensed costs (excl. VAT)	2008	2007	2006
Ernst & Young			
Statutory audit and audit related services	1,081	1,056	811
Tax services	205	83	112
Consulting, other services	13	8	47
Deloitte			
Statutory audit and audit related services	245	-	-
Tax services	10	36	-
Consulting, other services	2	-	-
Total	**1,556**	**1,184**	**970**

NOTE 6 Income tax

(Amounts in USD 1,000) Income tax expense for the year	2008	2007	2006
Norway			
Tax Payable	-	-	-
Change in deferred tax	-	-	-
Brazil			
Tax Payable	3,888	6,270	231
Change in deferred tax	-14,562	-15,423	-1,734
USA			
Tax Payable	-	732	157
Change in deferred tax	9,584	-204	470
Canada			
Tax Payable	-	888	-
Change in deferred tax	-	-	-
Net income tax expense	**-1,090**	**-7,737**	**-876**

Deferred tax
Below is a country-by-country deferred tax analysis.

December 31, 2008	Norway	Brazil	US	Total
Losses to carry forward	29,754	1,970	14,623	46,347
Current Assets	-	-	-826	-826
Current Liabilities	-	-	1,527	1,527
Non-Current Assets	-1,230	31,760	-25,615	4,915
Non-Current liabilities	-31	-17,774	3,460	-14,345
Deferred tax assets not recognized	-28,493	-5,851	-4,956	-39,300
Net deferred tax assets/(liabilities)	**-**	**10,105**	**-11,787**	**-1,682**

December 31, 2007	Norway	Brazil	US	Total
Losses to carry forward	48,607	3,059	22,008	73,674
Current Assets	-	-	27	27
Current Liabilities	-	-3,727	804	-2,923
Non-Current Assets	2,916	-12,969	-21,400	-31,453
Non-Current liabilities	-38	-504	568	26
Deferred tax assets not recognized	-51,485	-	-2,326	-53,811
Net deferred tax assets/(liabilities)	**-**	**-14,141**	**-319**	**-14,460**

The net tax loss carry forwards in Norway have unlimited duration. These tax loss carry forwards are related to the parent company Norse Energy Corp. ASA. The company is not recognizing any deferred tax asset due to uncertainty of whether any of the tax loss carry forwards can be utilized.

The tax loss carry forwards in Brazil have unlimited duration, however the amount that can be off-set towards the taxable gain for the year is limited to 30% of the tax gain for the year. This is causing the operations in Brazil to have payable taxes even though the Brazilian companies have net tax loss carry forwards.

Tax losses to carry forward in the US have a limited duration of 20 years, and future utilization of the net operating loss carry forward can be restricted as a result of changes in control. An allowance has been made in the US, as indicated in the table above, due to the uncertainty of future utilization of these losses. The tax liability recognized relates to state taxes in individual subsidiaries, which cannot be offset against tax assets in other subsidiaries.

Tax	2008
Profit before tax	-11,630
Income tax at nominal income tax rate of 34%	-3,954
Non-deductable expenses	1,366
Non-taxable income	-1,043
Tax included in impairment of asset calculation	9,410
Use of previously unrecognised loss carried forward	-4,907
Tax expense impact of nominal tax rate other than 34%[1]	1,131
Tax losses for which no deferred tax asset was recognized	1,313
Other effects [2]	-4,406
Income tax expense – charged to P/L	**-1,090**

1 Taxes with nominal tax rates other than 34% relates to corporate tax rate in Norway and federal taxes in the US with tax rate different from state taxes.
2 Amount by which non-monetary items assets reported at historical rates and re-converted to local currency at balance sheet rates (exceeds)/are lower than their tax base equivalents reported in local currency.

Losses to carry forward	2008
2009	-
2010	-
2011	-
2012	-
2013	2,038
2014	419
2015	403
After 2015	34,634
No expiration date	112,059
Total tax loss carried forward	**149,553**

NOTE 7

Earnings per share and diluted earnings per share

Earnings per share
Earnings per share is calculated as the net profit for the year divided by the weighted average number of shares outstanding.

(In USD)	2008	2007	2006
Net profit	-10,540,000	-28,705,000	-12,377,000
Weighted average numbers of shares for the purpose of basic earnings per share	352,805,925	352,555,925	350,472,749
Earnings per share	**-0.03**	**-0.08**	**-0.04**
Weighted average numbers of shares for the purpose of diluted earnings per share	352,805,925	352,555,925	350,472,749
Diluted earnings per share	**-0.03**	**-0.08**	**-0.04**

Weighted average numbers of shares outstanding has been reduced with 108,605 treasury shares.

Diluted earnings per share
When calculating the diluted earnings per share, the weighted average number of shares outstanding is adjusted for all the dilution effects relating to the company's employee stock options and warrants. As the warrants were out-of-the money compared to the average stock price in 2008, the warrants were not considered to have a dilutive effect.

As of December 31, 2008, there are 9,940,000 stock options granted of which 5,840,000 have vested 500,000 are exercised and 100,000 are terminated. A total of 75 million warrants are outstanding at December 31, 2008. Since the company presented a net loss for 2008, 2007 and 2006, the calculations of the diluted earnings per share will not take into account the effect of the employee share options and warrants as these will give an anti-dilutive effect.

For details on the employee stock options, refer to note 11. For details on the bond loans with detachable warrants, refer to note 15.

NOTE 8 Exploration assets and property plant & equipment

(Amounts in USD 1,000)
Licenses and exploration assets

Fiscal year 2008	Estrela-Do-Mar	Cavalo Marinho	BCAM-40	BM-CAL 5&6	Sardinha	9th Bid-Blocks	Other	Total Brazil	US	Total
Acquisition cost January 1, 2008	**19,568**	**55,940**	**18,999**	**15,926**	**3,519**	**-**	**753**	**114,705**	**4,412**	**119,117**
Investments	246	1,337	6,100	19,645	105	8,232	3,190	38,855	14,636	53,491
Reclassification of assets	-	-	-	-	-	-	-	-	13,579	13,579
Foreign currency translation	-	-	-9,400	-7,075	-	-	-	-16,475	-	-16,475
Acquisition cost December 31, 2008	**19,814**	**57,277**	**15,699**	**28,496**	**3,624**	**8,232**	**3,943**	**137,085**	**32,627**	**169,712**
Accumulated Impairment/Exploration costs charged to profit	-	-	-8,229	-32,602	-	-	-3,862	-44,693	-	-44,693
Foreign currency translation	-	-	3,261	4,106	-	-	-	7,368	-	7,368
Net book value December 31, 2008	**19,814**	**57,277**	**10,731**	**-**	**3,624**	**8,232**	**81**	**99,759**	**32,627**	**132,386**
Current year impairment and exploration cost previously capitalized charged to profit current year	-	-	-8,229	-32,602	-	-	-3,862	-44,693	-	-44,693

Fiscal year 2007	Estrela-Do-Mar	Cavalo Marinho	BCAM-40	BM-CAL 5&6	Sardinha	9th Bid-Blocks	Other	Total Brazil	US	Total
Acquisition cost January 1, 2007	**17,971**	**57,810**	**23,693**	**11,994**	**11,389**	**3,519**	**686**	**127,062**	**2,069**	**129,131**
Transfer to field investments and equipment	-	-	-23,693	-	-	-	-	-23,693	-	-23,693
Reversal of abandonment costs	-	-5,807	-	-	-	-	-	-5,807	-	-5,807
Investments	382	463	-	2,636	2,655	-	-	6,136	2,603	8,739
Reclassified as Assets held for sale	-	-	-	-	-	-	-	-	-260	-260
Capitalized borrowing costs	1,215	3,474	-	938	977	-	67	6,671	-	6,671
Foreign currency translation	-	-	-	3,431	905	-	-	4,336	-	4,336
Acquisition cost December 31, 2007	**19,568**	**55,940**	**-**	**18,999**	**15,926**	**3,519**	**753**	**114,705**	**4,412**	**119,117**
Accumulated Impairment	-	-	-	-	-	-	-	-	-	-
Net book value December 31, 2007	**19,568**	**55,940**	**-**	**18,999**	**15,926**	**3,519**	**753**	**114,705**	**4,412**	**119,117**
Current year impairment	-	-	-	-	-	-	-	-	-	-

Production assets

Fiscal year 2008	US Natural gas properties	US pipelines	Manati	Coral	Total
Acquisition cost January 1, 2008	32,536	28,860	117,665	65,564	244,625
Abandonment cost incurred	-	-	-	5,676	5,676
Investments	29,548	9,500	5,282	-	44,330
Transfers from Licenses	-	-	-	-	-
Reclassification of assets	-14,532	-44	-	-	-14,576
Assets held for sale	-	-	-	-	-
Foreign currency translation	-	-	-28,031	-	-28,031
Acquisition cost December 31, 2008	**47,552**	**38,316**	**94,916**	**71,240**	**252,024**

Fiscal year 2008	US Natural gas properties	US pipelines	Manati	Coral	Total
Accumulated depreciation and impairment	-7,075	-10,215	-17,211	-71,240	-105,741
Accumulated depreciation and impairment associated with assets held for sale	-	-	-	-	-
Foreign currency translation	-	-	3,935	-	3,935
Net book value December 31, 2008	**40,477**	**28,101**	**81,640**	**-**	**150,218**
Depreciation and impairment 2008	-3,435	-1,125	-11,191	-5,676	-21,427

Fiscal year 2007	US Natural gas properties	US pipelines	Manati	Coral	Total
Acquisition cost January 1, 2007	54,814	28,447	59,325	61,572	204,158
Abandonment cost incurred	605	-	4,423	3,992	9,020
Investments	25,010	413	17,340	-	42,763
Transfers from Licenses	-	-	23,696	-	23,696
Assets held for sale	-47,893	-	-	-	-47,893
Foreign currency translation impact on acquisition cost	-	-	12,881	-	12,881
Acquisition cost December 31,2007	**32,536**	**28,860**	**117,665**	**65,564**	**244,625**
Accumulated depreciation and impairment	-15,242	-9,090	-6,090	-65,564	-95,986
Accumulated depreciation and impairment associated with assets held for sale	11,602	-	-	-	11,602
Foreign currency translation on Depr. And amortization	-	-	-1,078	-	-1,078
Net book value December 31, 2007	**28,896**	**19,770**	**110,496**	**-**	**159,160**
Depreciation and impairment 2007	-3,090	-875	-6,090	-44,209	-54,264

Fiscal year 2008	Furniture fixture and Equipment
Acquisition cost January 1, 2008	5,257
Investments	2,995
Disposals	-
Foreign currency translation impact on acquisition cost	-57
Acquisition cost December 31,2008	**8,195**
Accumulated depreciation and impairment	-1,950
Accumulated depreciation and impairment associated with assets held for sale	-
Foreign currency translation on Depr. And amortization	7
Net book value December 31, 2008	**6,252**
Depreciation and Impairment 2008	-1,152

Fiscal year 2007	Furniture fixture and Equipment
Acquisition cost January 1, 2007	3,726
Investments	1,531
Disposals	-
Foreign currency translation impact on acquisition cost	-
Acquisition cost December 31,2007	**5,257**
Accumulated depreciation and impairment	-798
Accumulated depreciation and impairment associated with assets held for sale	-
Foreign currency translation on Depr. And amortization	-
Net book value December 31, 2007	**4,459**
Depreciation and Impairment 2007	-308

No borrowing costs were capitalized during 2008. In 2007 borrowing costs of USD 6.6 million was capitalized.

Depreciation method/rates
Capitalized costs for field investments and natural gas properties are depreciated in accordance with the unit-of-production method.

Depreciation for the gathering systems and the transmission lines are computed using the straight-line method over a period of twenty and thirty-year useful life, respectively.

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

Impairment
The recoverability of amounts capitalized in connection with field investments depends on the existence of viable reserves, the company's ability to finance the necessary investments and future cash flows from production. Per year-end 2008, the company has obtained annual reserve reports from Gaffney Cline & Associates for the Brazilian assets and from Schlumberger for the US assets. Based on these reserve reports, as well as the progress on the exploration efforts in fields where the certifying agents have not currently certified reserves, the company has carried out an impairment assessment in line with prior year's methodology.

When estimating the net present value, the company has utilized a discount rate of 12.75%. This is a pre-tax discount rate and is calculated based on the company's pre-tax weighted average cost of capital (WACC). In Brazil, utilized oil prices are based on a forward curve for Brent blend and were derived from the independent third party certifying agent, yielding USD 55.55/BOE in 2009, USD 65.30/BOE in 2010, USD 70.33/BOE in 2011, USD 73.37/BOE in 2012, USD 75.77/BOE in 2013, USD 77.29 in 2014 and inflated with 2% thereafter. Pricing in the US is based on future NYMEX Strip Pricing of; USD 6.63/MMBtu in 2009, USD 7.7370/MMBtu in 2010, USD 7.470/MMBtu in 2011, USD 7.360/MMBtu in 2012 and USD 7.440/MMBtu for the remaining life of the wells. Operating expenses are based on expenses from the filed development plan or more updated estimates if such estimates exist.

After the close of the year, the company farmed-out its interest in BM-CAL 5, receiving no compensation. As a result, the company has recognized an impairment charge of USD 18.3 million, net of related tax effects and commitments paid and anticipated in 2009 related to the BM-CAL 5 field. In the BM-CAL 6 field, an impairment charge of USD 2.0 million was booked as the Peroba prospect was deemed a dry hole.

NOTE 9

Goodwill and other intangible assets

(Amounts in USD 1,000) **Fiscal year 2008**	**Goodwill**	**Other intangible assets**	**Total**
Acquisition cost January 1, 2008	5,643	238	5,881
Investments	-	-	-
Disposals	-	-	-
Foreign currency translation impact on acquisition cost	-	-	-
Acquisition cost December 31,2008	**5,643**	**238**	**5,881**
Accumulated depreciation and impairment	-	-127	-127
Accumulated depreciation and impairment associated with assets held for sale	-	-	-
Foreign currency translation on Depr. And amortization	-	-	-
Net book value December 31, 2008	**5,643**	**111**	**5,755**
Depreciation and Impairment 2008	-	-36	-36

Fiscal year 2007	**Goodwill**	**Other intangible assets**	**Total**
Acquisition cost January 1, 2007	5,643	238	5,881
Investments	-	-	-
Disposals	-	-	-
Foreign currency translation impact on acquisition cost	-	-	-
Acquisition cost December 31,2007	**5,643**	**238**	**5,881**
Accumulated depreciation and impairment	-	-91	-91
Accumulated depreciation and impairment associated with assets held for sale	-	-	-
Foreign currency translation on Depr. And amortization	-	-	-
Net book value December 31, 2007	**5,643**	**147**	**5,790**
Depreciation and Impairment 2007	-	-36	-36

The company booked goodwill of USD 5.6 million and other intangible asset of USD 0.2 million in 2006 after finalizing the purchase analyzes of the acquisition of Mid American June 30, 2005. The goodwill is assumed to have duration for as long as the Mid American operations are profitable.

Each year the company performs an assessment of whether or not impairment indicators exists for the intangible assets. If such indicators are deemed present, the company performs an impairment test of the assets. For 2008, no such impairment indicators were identified as the financial results of Mid American´s operations are satisfactory and justify the net book value of the intangible assets.

NOTE 10

Financial instruments

Overview
The company's policy is to constantly monitor the risk associated with its floating interest loans, currency loans and the price for oil and gas, to assess the necessity to enter into financial instruments to limit the risk to the company and maximize income. As such, Norse Energy has entered into various hedging transactions. Refer to note 20 for details on the company's financial risk management policy.

The table below sets forth a comparison of carrying amounts and fair values of all of the company's financial instruments by category, including the fixed price contracts (derivatives) in the energy marketing division.

(Amounts in USD 1,000)	**Carrying amount**		**Fair value**	
Financial Assets	**2008**	**2007**	**2008**	**2007**
Cash	32,207	43,747	32,207	43,747
Receivables				
Trade accounts receivable (loans and receivables)	31,602	37,094	31,602	37,094
Other derivatives (fair value through P/L)	10,643	3,781	10,643	3,781
Othert short term receivables (loans and receivables)	3,527	2,648	3,527	2,648
Other non-current assets				
Oil put options (fair value through P/L)	-	1	-	1
Shares in Biofuel Energy ASA (fair value through P/L)	-	1,478	-	1,478
Other non-current assets	517	-	517	-
Total	**78,496**	**88,749**	**78,496**	**88,749**
Financial Liabilities				
Trade accounts payable (other liabilities)	-26,445	-47,234	-26,445	-47,234
Interest bearing loans and borrowings (other liabilities)				
NEC01 unsecured bond loan (other liabilities)	-40,527	-54,689	-28,605	-54,689
NEC02 unsecured bond loan (fixed rate) (other liabilities)	-64,796	-61,783	-64,125	-61,783
NEC03 unsecured bond loan (other liabilities)	-71	-36,575	-71	-36,575
NEC03Pro unsecured bond fixed rate (Other liab.)	-8,734	-	-6,600	-
NEC 04 unsecured bond loan loan (floating rate) (Other liab.)	-3,822	-	-3,086	-
NEC04Pro unsecured bond issue (Other liab.)	-17,677	-	-14,240	-
Floating rate borrowings (other liabilities)	-47,548	-84,208	-47,548	-84,208
Other fixed rate borrowings (other liabilities)	-41,480	-16,299	-39,754	-18,261
NECJ warrants (other liabilities)	-12,002	-20,098	-12,002	-20,098
Own bonds in NEC02 (fair value through P/L)	1,138	1,136	1,138	1,136
Currency swap (fair value through P/L)	-4,711	8,993	-4,711	8,993
Other derivatives (fair value through P/L)	-3,724	-1,922	-3,724	-1,922
Total	**-270,399**	**-312,679**	**-249,751**	**-318,057**

Financial Assets	P&L Impact 2008	2007
Other derivatives (Natural gas forward contracts mostly)	4,488	-2,045
Oil put options	357	-1,138
Shares in Biofuel Energy ASA	-1,069	1,469
Currency Swaps	1,150	7,232
Own bonds	-	65

Financial Liabilities	2008	2007
NEC J – Warrants	8,096	-3,235
Forward contract Revus Energy ASA	-	7,049

Determination of fair value

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

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

The the NEC-J warrants are measured at fair value with reference to the quoted price of the warrants. For further description of accounting treatment of the warrants, refer to summary of accounting principles.

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

The carrying amount of cash and cash equivalents and overdraft facilities are approximately equal to fair value since these instruments have a short term to maturity. Similarly, the carrying amount of trade receivables and trade payables are approximately equal to fair value since they are entered into on "normal" terms and conditions.

The fair value of un-qouted loan notes has been calculated using market interest rates.

Credit risk

The carrying amount of the Company's financial assets presented above represents the maximum credit risk exposure.

Accounts receivables in MANR are secured by guarantees of USD 10 million for several large customers in the wholesale market. The amounts secured through these guarantees are not deducted in the analysis below.

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

(Amounts in USD 1,000)	Carrying amount 2008	2007
Norway	-	-
Brazil		
Petrobras	5,498	8,550
Others	7,727	9,041
USA		
E&P	1,391	549
Pipeline	232	413
MANR Wholesale	12,113	13,784
MANR retail	4,641	4,757
Total	**31,602**	**37,094**

The aging of trade receivables at the reporting date was;

	2008		2007	
(Amounts in USD 1,000)	Carrying value	Impairment	Carrying value	Impairment
Current receivables	31,218	100	36,914	-
Past due 0–30 days	10	-	3	-
Past due 31–120 days	284	44	77	-
Older than 120 days	90	-	100	51
Total	**31,602**	**144**	**37,094**	**51**

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

(Amounts in USD 1,000)	2008	2007
Provisions as of January 1	51	51
Provision for bad debt during the period	144	-
Realized losses for the year	-51	-
Reversed provision during the period	-	-
Changes due to business combinations	-	-
December 31	**144**	**51**

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

December 31, 2008

(Amounts in USD 1,000) **Non-derivative financial liabilities**	Total	0–1 month	1–3 months	3–12 months	1–3 years	3–5 years	> 5 years
NEC01 unsecured bond loan (other liabilities)	-53,439	-	-	-4,152	-49,287	-	-
NEC02 unsecured bond loan (fixed rate) (other liabilities)	-89,625	-	-	-4,875	-84,750	-	-
NEC03 Pro unsecured bond fixed rate (other liabilities)	-10,109	-	-	-457	-9,652	-	-
NEC 04 Unsecured bond loan loan (floating rate) (Other liab.)	-25,443	-	-977	-953	-3,811	-19,702	-
NEC04Pro unsecured bond issue (Other liab.)	-5,633	-	-222	-222	-887	-4,302	-
US loans	-11,216	-13	-289	-5,230	-1,977	-1,977	-1,730
Brazil loans	-104,815	-1,414	-2,850	-22,670	-54,857	-16,139	-6,885
Accounts payable and other payments	-26,563	-15,559	-9,444	-1,104	-456	-	-
Total Non-derivative financial liabilities	**-326,843**	**-16,986**	**-13,782**	**-39,663**	**-205,677**	**-42,120**	**-8,615**

(Amounts in USD 1,000) **Derivative financial liabilities**	Total	0–1 month	1–3 months	3–12 months	1–3 years	3–5 years	> 5 years
Currency swap Norway							
NEC pay to bank	-28,286	-	-	-2,074	-26,212	-	-
Bank pay to NEC	23,827	-	-	1,981	21,846	-	-
MANR Financial contracts							
Long contracts	3,394	998	1,138	1,038	220	-	-
Short contracts	-2,934	-1,018	-1,027	-607	-282	-	-
Total Derivative financial liabilities	**-3,999**	**-20**	**111**	**338**	**-4,428**	**-**	**-**

December 31, 2007

(Amounts in USD 1,000) **Non-derivative financial liabilities**	Total	0–1 month	1–3 months	3–12 months	1–3 years	3–5 years	> 5 years
NEC01 unsecured bond loan (other liabilities)	-72,075	-	-	-5,544	-66,531	-	-
NEC02 unsecured bond loan (fixed rate) (other liabilities)	-94,500	-	-	-4,875	-9,750	-79,875	-
NEC03 unsecured bond loan (other liabilities)	-47,055	-918	-	-2,753	-43,385	-	-
Brazil loans	-86,118	-1,179	-2,188	-15,178	-40,676	-22,482	-4,415
US loans	-28,523	-	-14,152	-1,103	-7,464	-1,882	-3,922
AP and other payments	-40,990	-24,351	-8,911	-7,728	-	-	-
Total Non-derivative financial liabilities	**-369,261**	**-26,448**	**-25,251**	**-37,181**	**-167,806**	**-104,239**	**-8,337**

(Amounts in USD 1,000) **Derivative financial liabilities**	Total	0–1 month	1–3 months	3–12 months	1–3 years	3–5 years	> 5 years
Currency swap related to NEC01/NEC 03							
NEC to pay Bank	-105,828	-3,389	-	-4,981	-97,458	-	-
Bank to pay NEC	119,440	856	-	8,456	110,128	-	-
MANR financial contracts							
Long contracts	-518	-307	-199	-12	-	-	-
Short contracts	1,222	574	563	174	-88	-	-
Nornew financial contracts	-466	58	62	-18	-569	-	-
Total Derivative financial liabilities	**13,850**	**-2,208**	**426**	**3,620**	**12,013**	**-**	**-**

In determining the maturity analysis above, the company has utilized the current spot rates at year-end 2008 and 2007 respectively. For the MANR and Nornew financial contracts, the cash flows projected from the long and short positions are calculated as the difference between the terms of each financial contract and the forward settlement prices at year-end 2007 and 2006.

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

	December 31, 2008		December 31, 2007	
(Amounts in USD 1,000)	NOK	BRL	NOK	BRL
Cash and cash equivalents	461	10,891	3,834	4,777
Trade receivables	-	13,225	-	6,698
Bank loans	-44,793	-28,429	-92,404	-
Trade payables	-191	-10,147	-6	-8,317
Net balance sheet exposure	**-44,523**	**-14,460**	**-88,576**	**3,159**

A 20% strengthening or weakening of the USD against the following currencies at December 31 would have increased (decreased) equity and profit or loss by the amounts shown below. The company has used a sensitivity rate of 10% as this reflects the change in the USD/NOK and USD/BRL during 2007. This hypothetical analysis assumes that all other variables, including interest rates and commodity prices, remain constant.

(Amounts in USD 1,000)	2008		2007	
USD vs NOK	**+ 20%**	**- 20%**	**+ 10%**	**- 10%**
Cash	-77	115	-349	426
Loans	7,465	-11,198	8,400	-10,267
Currency swap	-3,847	5,771	-9,567	11,693
Net P&L effect	**3,541**	**-5,312**	**-1,515**	**1,852**
USD vs BRL				
Cash	-2,178	2,178	-478	478
Receivables	-2,710	2,710	-670	670
Payables	2,029	-2,029	832	-832
Loans	5,686	-5,686	-	-
Net P&L effect	**2,827**	**-2,827**	**-316**	**316**

This sensitivity analysis is presented on a pre-tax basis. For a description of the currency swaps in place, refer to note 15.

Interest rate risk
Norse Energy is exposed to interest rate risk as entities in the group borrow money at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings and by using interest rate currency swap contracts.

A change in 100 basis points in interest rates at the reporting date would have increased (decreased) profit and loss before tax by the amounts shown in the table below. This analysis assumes foreign currency rates and other variables to be constant.

	2008		2007	
(Amounts in USD 1,000)	**+ 100 bp**	**- 100 bp**	**+ 100 bp**	**- 100 bp**
Cash	327	-293	460	-460
Floating interest loans	-473	473	-1,208	1,208
Currency swaps	-	-	166	-165
Net P&L effect	**-146**	**180**	**-583**	**584**

Commodity price risk
The company is exposed to fluctuations in the prices for oil and natural gas. To mitigate this risk, the company has entered into a long-term take-or-pay contract with Petrobras for the sale of natural gas from the Manati field.

In the US, the company has taken various steps to mitigate the commodity price risk. Norse Energy has entered into fixed price contracts for physical delivery of gas, as well forward contracts for a part of our production in Appalachia.

1. Fixed price contracts with physical delivery
Norse Energy has entered into a fixed price contract for the physical delivery of 1,500 Mcf/day from November 2006 to October 31, 2008 (USD 6.35 per MMBtu). While this amount was sold forward and hedged at a fixed price, it relates to physical deliveries and is consequently not subject to IAS 39, and no fair value has been recognized on these transactions.

2. Forward contracts
In the US, the company has sold forward the following volumes of natural gas by using financial derivatives:

- 2009 An average of 70,000/Mcf per month at USD 8.45 per Mcf
- 2010 An average of 60,000/Mcf per month at USD 8.06 per Mcf

After the sale of the Medina properties in March 2008, it was deemed that Norse Energy does no longer qualify for hedge accounting under IAS 39 Financial Instruments: Recognition and Measurement for the remaining open forward contracts. When qualifying for hedge accounting, the change in fair value of the forward contracts was charged directly to equity. When not qualifying for hedge accounting, the fair value on these contracts is charged to the income statement.

Marketing activity risk
The Energy Marketing division generates a margin via sales and purchases of physical volumes of natural gas. The majority of the fixed price purchase-contracts, both financial and physical, are balanced with fixed price sales-contracts, financial or physical. Consistent with corporate policy the only price exposure the company has on fixed price contracts to the NYMEX is restricted to less than 50,000 Dth at any time.

All open positions (financial hedging transactions as well as physical fixed price contracts) are recognized at fair value through profit and loss at year-end. The fair value of these transactions is calculated based on NYMEX futures and forward basis. The company recorded an unrealized gain for the 12 months ended December 31, 2008 of USD 2.2 million.

The following shows the mark-to-market value of outstanding contracts for future purchase and sale of gas and unrealized gain as of December 31, 2008:

December 31, 2008	**Dth**	**Market value in USD 1,000**
Future purchases	11,868,695	-380
Future sales	-11,626,495	5,208
Basis reserve		-174
Fair value December 31, 2008		4,654
Fair value December 31, 2007		2,430
Net unrealized gain/(loss) 2008		**2,224**

The company had as of December 31, 2008, open contracts totaling 241,000 Dth (sale-contracts in excess of purchase-contracts), of which about 51,000 Dth have NYMEX risk. These open contracts are priced at NYMEX plus a basis differential. the existing efficient financial OTC and NYMEX based markets, mitigate the risk for price variations attributable to the NYMEX price. Accordingly the only price risk related to these open contracts is the risk for fluctuation of the basis differential. In the Energy Marketing Division's core market area, the basis differential varies between USD 0.10 and USD 0.40 depending on which pipeline the gas is traded on and the time of the year. Historically, this differential has varied very little between periods.

NOTE 11

Share-based payment plans

Norse Energy has an option program amounting to 18 million shares. At the beginning of 2008, 9.9 million of these options were granted to key employees. No options have been granted during 2008. The 9.9 million options are granted as follows:

Name	# of shares	Option price in NOK	Exercising period	Estimated value (USD 1 000)
Øivind Risberg	4,000,000	4,04	June 1, 2007–May 31, 2012	954
Anders Kapstad	1,000,000	3,82	August 1, 2007–June 29, 2012	186
Kjetil Solbrække	-	-	-	-
Other Employees	4,940,000	3,84	June 1, 2007–June 29, 2012	977
Total	**9,940,000**			**2,117**

A total of 5,840,000 options were vested as of December 31, 2008. All options under the plan will be settled in shares.

The fair value of the options is estimated at grant date by an independent third party expert using the Black & Scholes – Merton option pricing model. The exercise price of the options is equal to the market price of the shares at the grant date plus 8 percent, and the volatility is based on a calculated implied volatility of the warrants that the company issued and listed on OSE in July 2006. The expected exercise date is set to the contractual vesting period (ranging from 1.5 years to 2 years) plus two years for the CEO and one year for all other employees. Risk free rate used is 4.07% calculated by using rates from Norges Bank at grant date (bonds and certificates) based on the expected term of the option being valued. Implied volatility used in the calculation is 35.74%, and no dividends are incorporated.

The options are expensed over the vesting period, about USD 0.6 million in 2008, and the option price stated is a weighted average exercise price. The stock options outstanding at the end of the financial year had an exercise price between NOK 3.50 and NOK 4.75 (equivalent for 2007), and a weighted average remaining contractual life of 912 days and 1,278 days in 2008 and 2007, respectively.

500,000 options were exercised in 2008. Should the employee decide to terminate the employment prior to the start of the exercising period, the options would expire without any further compensation. 100,000 options were terminated in 2008. A total of 23 persons were granted options as of December 31, 2008. Refer to note 5 for further details on this program

NOTE 12

Inventory

As of year-end, inventories consist of the following:

(Amounts in USD 1,000)	December 31,	
Inventory	**2008**	**2007**
Crude oil, Brazil	290	3,051

NOTE 13

Cash and cash equivalents

Restricted cash
Restricted cash in Norway consists of margin call for currency swap USD 6.9 million and USD 3.9 million for 2008 and 2007 respectively. In addition USD 0.08 million and 0.11 million were restricted as employee withholding tax for 2008 and 2007 respectively.

In Brazil cash of USD 8.2 million and USD 5.7 million are restricted for installment of long term debt to Unibanco for 2008 and 2007 respectively. Included in other non-current assets are restricted cash of USD 8.0 million and 5.8 million in 2008 and 2007 respectively, to cover asset retirement obligations on the Coral and Manati field. In addition, USD 2.5 million classified as other current assets are investment account cash deposits.

Restricted cash in the US consists of USD 4.3 million and USD 1.4 million to back letters of credit in the energy marketing division for 2008 and 2007 respectively. In addition USD 0.9 million and 0.8 million for 2008 and 2007 respectively included in other non-current assets were restricted cash for margin calls in the energy division.

Overdraft facilities
Coplex has a BRL denominated bank overdraft facility of USD 0.7 million as of December 31, 2008, and USD 1.4 million as of December 31, 2007, with USD 0 million drawn down as of December 31, 2008 and 2007. Norse Energy do Brasil has a BRL denominated bank overdraft facility of USD 2.1 million as of December 31, 2008 and USD 1.1 million as of December 31, 2007 with USD 0 million and USD 0.5 million drawn down as of December 31, 2008 and December 31, 2007 respectively. Rio das Contas has a bank overdraft facility of approximately USD 1.3 million as of December 31, with USD 0 drawn down.

Norse Energy USA has a bank overdraft facility of USD 15 million as of December 31, 2008 and 30 million as of December 31, 2007 whereof USD 4.3 million and USD 19.2 million was drawn down as of December 31, 2008 and 2007, respectively.

NOTE 14

Issued capital and reserves

Outstanding shares
As of year-end 2008 a total of 353,164,530 shares were outstanding, with a nominal value of NOK 0.88 per share.

	Ordinary shares	
	2008	**2007**
On issue January 1	352,664,530	352,664,530
Issued for cash	-	-
Exercise of share options	500,000	-
On issue December 31	**353,164,530**	**352,664,530**

Norse Energy has issued a bond loan of USD 75 million with 75 million associated warrants giving the right to new ordinary shares at NOK 6.10 per share. For details on the bond loan, refer to note 15. For details on how the warrants impact the diluted earning per share, refer to note 7.

Dividends
No dividends (equity dividends and dividends of subsidiary) were paid in 2008.

Treasury shares and share based payments
The company currently owns 108 605 treasury shares. The Annual General Meeting has authorized management to purchase up to 35,266,453 treasury shares.

For details on the company's share based payments, refer to note 11.

Share Premium Reserve reduction
At the Annual General Meeting in May 2008 it was decided to do a share premium reserve reduction. The purpose of the reduction was allocation to reserves to be used in accordance with the General Meeting´s resolution.

NOTE 15 Interest bearing debt

Below is a summary of the company's interest bearing debt as of December 31, 2008;

Loan description:	Interest rate	Repayment date	Within 1 year	After 1 year	Total
			Amount due in USD 1,000		
Norway					
NEC 01 – NOK 286 million bond loan	10% fixed	07/13/2010	-	45,238	45,238
NEC 02 – USD 75 million bond loan	6.5% fixed	07/14/2011	-	64,796	64,796
NEC 03PRO – NOK 0.5 million bond loan	3-mo NIBOR + 4.25%	07/06/2010	-	71	71
NEC 03 – USD 8.8 million bond loan	9.5% fixed	07/06/2010	-	8,734	8,734
NEC 04PRO – NOK 27 callable bond loan	11.5% fixed	09/25/2012	-	3,822	3,822
NEC 04 – USD 17.8 million bond loan	10.707%	09/25/2012	-	17,677	17,677
Brazil					
Coplex – USD loan	Libor + 5.5%	10/15/2010	4,522	-	4,522
Coplex – USD loan	Libor + 4.75%	10/15/2010	4,516	-	4,516
NEdB – USD loan	9.55% fixed	10/13/2012	11,433	-	11,433
NEdB – USD loan	6.60% fixed	07/05/2009	2,092	-	2,092
RdC – BRL loan	5.3%–6.8% + TJLP	10/15/2013	28,430	-	28,430
RdC – USD loan	Libor + 4.65	12/05/2011	2,816	-	2,816
RdC – USD loan	Libor + 4.65%	12/28/2011	2,964	-	2,964
RdC – USD loan	12% fixed	03/17/2009	22,179	-	22,179
USA					
Norse Pipeline	4.250%	09/30/2015	755	5 022	5,777
Nornew	prime + margin	01/01/2010	4,300	-	4,300
Total Loans			**84,007**	**145,360**	**229,367**

The effective interest rate presented in the table for the NOK 286 million bond loan and the USD 75 million bond loan are the contractual rates, not the calculated interest rate under IFRS which is based on amortized cost.

Certain loans are classified as short-term debt as of December 31, 2008, as the company was not in compliance with all financial covenants and the waivers obtained do not meet the IFRS requirements in order to keep the loans classified as long-term debt. These loans are grouped as due within one year in the above table. See further details below.

Norway financing

During 2008, bondholders in NEC01 representing NOK 14 million and bondholders in NEC03 representing NOK 139 million exchanged the existing bonds for bonds in a new issue; NEC04. The purpose of this was to extend the maturity date from July 2010 to September 2012 and to change from floating to fixed interest rate. The new callable bond issue was issued on September 25, 2008 for a total of NOK 153 million with a fixed interest rate of 11.5% and maturity date September 25, 2012.

Subsequent to this, the company extended a voluntary offer to the bondholders in this new NOK 153 million bond issue and in NEC03 to exchange the existing bonds at par value for bonds in two new issues. The purpose of these offers was to exchange existing bonds denominated in NOK for new bonds with USD currency and fixed interest of 9.5% and 10.707%, respectively. Bond holders representing NOK 126 million and NOK 60.5 million, respectively, accepted this offer. As a result of these exchanges in bonds, the company formally held own bonds of NOK 339.5 million by the end of the year. After the close of the year, these own bonds were terminated. This had no cash effect for the company.

NOK 286 million bond loan ("NEC01")

The company issued a 5-year senior unsecured bond loan in 2005, with a total borrowing limit of NOK 300 million. NOK 200 million was issued in July 2005, while the final tranche of NOK 100 million was issued in November 2005. The loan will mature on July 13, 2010, and is listed on the Oslo Stock Exchange (OSE) under the ticker "NEC01". The bond is a fixed 5-year bullet loan, is unsecured and has an annual coupon of 10%. The company is not holding any own bonds per year-end 2008.

During 2008, bondholders representing NOK 14 million exchanged bonds in NEC01 for a new bond issue called "NEC04" (see text below) thereby extending the maturity date of the loan and leaving the balance for NEC01 at NOK 286 million per year-end.

Norsk Tillitsmann ASA ("Norwegian Trustee") is representing the various bond holders.

Late November 2005 Norse Energy swapped NOK 250 million into USD 37.5 million at exchange rate NOK/USD 6.665 at a 5-year fixed rate of 10.89%. Norse Energy will receive 10% on NOK 250 million annually from Nordea until maturity in July 2010. Norse Energy is obliged to pay Nordea 10.89% on USD 37.5 million biannually until maturity in July 2010. The swap transaction is fair value adjusted each quarter, and any fair value adjustment is booked towards profit and loss. Per year-end 2007 the fair value of the currency swap was USD 8.8 million. In July 2008, the company terminated the currency swap at USD/NOK rate of 5.03, realizing a gain of USD 11.9 million. The accumulated profit and loss effect of the swap was recognized in 2008. The effective interest on the bond loan is slightly higher than the coupon of 10% as the related transaction costs are amortized over the life of the bonds.

Upon issuance of NEC04 in September 2008, the company entered into a new currency swap in order to reduce the NOK exposure. A total of NOK 139 million was swapped into USD 24.1 million. Any upward/downward movement in the NOK/USD exchange rate will result in a loss/gain on the currency swap and a corresponding margin call/release. As the majority of the NEC04 bondholders later in the year exchanged their bonds into a new USD denominated bond loan, the currency swap was instead tailored to match the cash flows of NEC01 and the currency swap will last until July 2010. This transaction required an initial USD 1.7 million deposit (fixed until maturity) and any upward movement NOK/USD and/or LIBOR rates will trigger extra margin calls. A fall in NOK/USD and/or LIBOR rates will relieve the company of less margin calls. Per December 31, 2008, the deposit totaled USD 6.9 million. Per year-end, the fair value of this currency swap was negative USD 4.7 million.

The main covenants for the bond loan are as follows:

- Maintain book equity of minimum USD 50 million in the parent company.
- Within a calendar year from when the loan was issued, Norse Energy cannot make any dividend payments; shares repurchases, or make any other distributions that constitutes more than 50% of net profits after taxes.
- Total equity shall constitute at least 30% of "Capital employed" in the parent company. "Capital employed" is defined as Norse Energy's total equity plus interest bearing debt, including financial instruments that have the commercial effect of borrowing, including guarantees and leasing commitments.

The company was in compliance with the covenants of the financing agreement.

USD 75 million bond loan ("NEC02")

On July 13, 2006 the company issued 50,000 bonds at a nominal value of USD 1,000 per bond for a total of USD 50 million and on November 30, 2006 another 25,000 bonds was issued at a nominal value of USD 1,000 per bond, bringing the total bond loan to USD 75 million. The bonds mature on July 14, 2011, and are listed on OSE under the ticker code "NEC02". The bond loan is unsecured and carries a fixed interest rate of 6.5%. Effective interest is about 12% as the value of the warrants and the transaction costs is amortized over the life of the bonds.

Each bond subscriber was allotted 1,000 warrants per bond free of charge. Each warrant gives the holder the right to subscribe for one new share in the company at an exercise price of NOK 6.10 per share. The warrants are listed separately on OSE under the ticker code "NECJ".

IAS 39 requires that the proceeds from the issue of the bond loans are split between the long term loan element and the embedded derivative – in this case the fair value of the option to convert to shares (the warrant). The long term loan element is amortized to the full value of the loan (USD 75 million) over the life of the loan, based on the effective interest method. As USD is the functional currency of Norse Energy Corp. ASA and the warrants are denominated in NOK, IFRS requires that the warrants are recorded as a liability – not as a component of equity.

At each reporting date, any change in the fair value of the warrants is recorded in the income statement based on the price of the NECJ warrants. An increase in the fair value of the warrant will cause a charge to the income statement and a corresponding increase in the liability. A drop in the warrant price will lead to the opposite. In 2008, the company recorded a fair value adjustment of USD 8.1 million in the profit and loss statement due to the decrease in the warrant price. However, it is important to notice that this income statement impact in no instance will affect the total loan to be paid to the loan holders at the maturity date.

At December 31, 2008, no warrants were converted to shares. The company holds own bonds totaling USD 1.1 million per year-end 2008.

NOK 0.5 million and USD 8.8 million bond loan ("NEC03PRO" and "NEC03")
In June 2007, the company raised NOK 100 million in a 3-year bond issue yielding 3 months NIBOR plus a margin of 4.25%. In August 2007, the company raised another NOK 100 million under this facility at the same terms. The bond issue is unsecured and it is listed on the Alternative Bond Market (ABM) as "FRN Norse Energy Corp. 07/10 CALL".

During 2008, bondholders representing NOK 139 million exchanged their bonds for bonds in NEC04, thereby reducing the loan balance to NOK 61 million. Towards the end of the year, bondholders representing NOK 60.5 million converted their bonds into USD, accepting the company's offer and a new bond issue named NEC03 of USD 8.8 million was established using an exchange rate USD/NOK of 6.92. NOK 0.5 million remained under the original loan facility.

Norsk Tillitsmann ASA ("Norwegian Trustee") is representing the various bond holders.

During November 2007, Norse Energy swapped the NOK 200 million into USD 36.7 million at average exchange rate NOK/USD 5.450 at a floating interest rate of 3 months LIBOR + a margin of 4.40%. Norse Energy will receive 3 months NIBOR + 4.25% quarterly from Nordea until maturity in July 2010. Norse Energy is obliged to pay Nordea 3 months LIBOR + 4.40% quarterly until maturity in July 2010. The swap transaction is fair value adjusted each quarter, and any fair value adjustment is booked towards profit and loss. Per year-end 2007 the fair value of the currency swap was USD 0.2 million. In July 2008, the company terminated the currency swap at USD/NOK rate of 5.03, realizing a gain of USD 3.0 million. The accumulated profit and loss effect of the swap was recognized in 2008.

The main covenants for the bond loan are the same as the NOK 286 million bond loan.

The company was in compliance with the covenants of the financing agreement.

NOK 27 million and USD 17.8 million bond loan ("NEC04PRO" and "NEC04")
The new NEC04 bond loan was established during the year upon the exchange of bonds from NEC01 and NEC03 for a total of NOK 153 million. This is a 4-year bond issue yielding fixed interest of 11.5% with semi-annual payments. Next, bondholders representing NOK 126 million converted their bonds into USD, accepting the company's offer and a new bond issue NEC04 of USD 17.8 million was established using an exchange rate of USD/NOK 7.08. NOK 27 million remained under the original loan facility.

Norsk Tillitsmann ASA ("Norwegian Trustee") is representing the various bond holders. The main covenants for the bond loan are the same as the NOK 286 million bond loan.

The company was in compliance with the covenants of the financing agreement.

Brazil financing
In January 2006, Coplex entered into two financing agreements through an on-lending transaction in U.S. Dollars for the development and production of natural gas in the Manati field in the amount of USD 20.0 million. The loans are payable over 72 months, and mature on October 15, 2010. The interest rates are LIBOR plus 5.5% and LIBOR plus 4.75% respectively. On December 31, 2008, the total balance of these two obligations was USD 9.0 million. The main loan conditions include pledging of the shares in Coplex, oil production in Estrela do Mar as well as pledge in the gas production in B-CAM 40. The financial covenants require the Company to keep an equity ratio at a minimum of 30%, and maintaining a debt service coverage ratio in excess of 1.4. Further, it is a condition that Coplex maintains its license rights in Brazil. The agreements also have a cross default convenants, meaning that any default of other material agreements for Coplex will lead to a default under these loan agreements.

In April 2007, Norse Energy do Brasil entered into a loan agreement through an on-lending transaction of USD 9.8 million, for the acquisition of interests in the Cavalo Marinho and Estrela do Mar fields. The loan is payable over 66 months, and matures in October 2012. The interest is fixed at 9.55%. On December 31, 2008, the balance of this obligation was USd 11.4 million. The main loan condition is pledging the oil production from Cavalo Marinho. The financial covenants require the company to keep an equity ratio at a minimum of 30 %, and maintaining a debt service ratio in excess of 1.3. Further, it is a condition that Norse Energy do Brasil maintains its license rights in Brazil. The agreements also have cross default covenants, meaning that any defaults of other material agreements for Norse Energy do Brasil will lead to default under these loan agreements

In November 2006, Rio das Contas entered into a credit agreement for investment in production and transport of natural gas and condensate from the Manati field in the amount of BRL 82.7 million. The amount was divided into four tranches; (i) BRL 6.7 million; (ii) BRL 60.2 million; (iii) BRL 1.6 million; and (iv) BRL 14.2 million. Tranches (i) and (ii) are amortized over 72 months, and carry an interest rate of currency basket or TJLP plus a fixed rate. Tranches (iii) and (iv) are amortized over 51 months, and also carry an interest rate of either a currency basket or TJLP plus a fixed rate. On December 31, 2008, the balance of this obligation was USD 28.4 million.

In July 2007, Rio das Contas entered into loan agreements through an on-lending transaction in USD at the amount of USD 7.7 million, for the development of natural gas and condensate in the Manati field. The loans are payable over 53 months, and mature in December of 2011. On December 31, 2008, the total balance of these two agreements was USD 5.8 million.

In September 2008, Rio das Contas entered into a loan agreement for a USD 21.4 (BRL 40 million) bridge-loan facility. The loan is part of a BRL 100 million exploration and development facility to be supported by BNDES (Brazilian State Development Bank). The bridge loan is expected to be replaced with BNDES Reais financing during 2009. The company is working to secure the remaining balance of the loan, and the financing will primarily be used to fund Manati development activities.

Final approval of this loan is still pending credit committee approval of the lenders as well as BNDES, and best estimate is for the first half of 2009.

The credit agreements described above require pledging of the shares in Rio das Contas, and the gas revenues from BCAM-40. The financial covenants require the Company to keep an equity ratio at a minimum of 30%, and maintain a debt service ratio in excess of 1.3. Further, the agreement requires Rio das Contas to maintain its license rights in Brazil. The agreements also have cross default covenants, similar to those described above.

The company was not in compliance with the loan covenants as of year-end. As a consequence USD 34.7 million was re-classified from long term to short term interest bearing debt in line with IFRS requirements.

The company has entered into negotiations with the banks in Brazil regarding a rescheduling of the debt portfolio. The bridge loan of USD 21.4 million has been rolled forward and a wider agreement with the banks will likely include rescheduling of the amortization of the debt and is expected to be reached during the second quarter 2009. The company is still awaiting waivers on the current situation. This is likely to be concuded as part of the debt restructuring described above.

USA financing
Revolving credit line
Nornew Inc. has a revolving credit line initially agreed in 1999 with a borrowing base of USD 15 million. The borrowing base is based on net proven production and reserves. As reserves and production increase, fund are made available for lending purposes.

The credit agreement carries an interest ranging from prime to prime plus 0.375% depending on the utilization of the credit line.

The credit agreement requires the company to maintain certain financial covenants. As of December 31, 2008, the company was not in compliance with certain of these covenants. A waiver for this was obtained; however, as the grace period did not extend beyond 12 months after the balance sheet date, the loan has been reclassified to short-term debt. The credit agreement also includes restrictions as to payment of dividend, or other kind of distribution for payment of inter-company debt, further indebtedness or contingent liabilities, further encumbrances, sales of assets, investments, corporate restructuring, transactions with affiliates, engagement in other parts of business, change of ownership of the borrowers as well as further lending from the borrowers. The credit agreement includes normal default provisions, including a cross-default provision related to other defaulted agreements in excess of USD 50,000.

The credit available under the agreement was USD 10.4 million per December 31, 2008.

Norse Pipeline Note
In conjunction with the acquisition of the Norse Pipeline system in June 1999, the company entered into a financing agreement with Colombia Gas Transmission Corporation for USD 18.8 million. This financing agreement was restructured in December 2002. The face amount of the restructured financing agreement was USD 11 million with a stated interest rate of 5% on USD 6.3 million of the balance and 0% on USD 4.7 million of the balance. The effective interest rate on the USD 11 million face value was approximately 1%. As the restructured debt was issued at a below-market interest rate, the company determined the fair value of the debt to be USD 9.6 million per December 31, 2002 by imputing interest at 4.25%. The loan is subject to quarterly repayments and matures September 30, 2015.

The financing agreement is secured by the physical pipeline assets of Norse Pipeline. In addition, Norse Energy Corp. USA has entered into a Limited Guaranty and Surety Agreement with the seller for the first payments due in the amount of USD 6.3 million. After this amount has been repaid, no obligations by Norse Energy Corp. USA are due to seller.

As of December 31, 2008, USD 5.8 million was booked as outstanding under the note, of which USD 0.8 million is due in 2009 and therefore classified as short-term.

The company was in compliance with the covenants of the financing agreement.

NOTE 16 Asset retirement obligations

In accordance with 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 carrying amount of the obligation associated with the retirement of oil and gas properties:

(Amounts in USD 1,000) **Asset Retirement Obligation**	**2008**	**2007**
At January 1,	12,632	10,640
Liabilities incurred during the year	238	5,028
Reversal of liabilities during the year	-	-5,807
Incurred removal expenditures Coral	-2,261	-
Liabilities associated with assets held for sale	-	-1,287
Changes in estimates of obligations (Coral)	5,182	3,993
Accretion expense	32	65
At December 31,	**15,823**	**12,632**
Short term Asset Retirement Obligations	10,950	-
Long term Asset Retirement Obligations	4,874	12,632

The value of the asset retirement obligations booked in Brazil of USD 15.3 million is based on an appraisal report prepared by Petrobras' (the operator of the Coral field) engineers according to Agencia Nacional de Petroleo / Petroleum National Agency's regulations. Asset retirement obligations for US gas fields amounted to USD 0.5 million per year-end.

Beginning early 2006, the partners in the Coral Consortium agreed to deposit funds monthly to a restricted bank account, to cover the expected decommissioning costs for the Coral field. The amount required to be deposited is calculated quarterly based on the proportion of produced reserves compared to remaining proven plus probable reserves. As of December 31, 2008, the company has deposit USD 7.5 million to cover the abandonment liability.

NOTE 17 Guarantees and pledges

Brazil
The parent Company, Norse Energy ASA has provided a performance guarantee to the Brazilian petroleum directorate ANP, in terms of which the company is liable for the commitments for Coral, Estrela-do-Mar, Cavalo Marinho, BCAM-40, BM-CAL 5 & 6, BT-REC 30 and Sardinha licenses in accordance with the given concessions for the licenses.

Norse Energy ASA is liable for any default by the other partners in the consortiums, via the participation in the joint operating agreements.

All shares in Coplex and Rio das Contas have been pledged to two banks as collateral for the engagement in Brazil. In reality this means that most of the company's Brazilian assets are pledged to the lenders.

In accordance with the loan agreements with one of the lenders, the oil and gas production and the associated cash flow are pledged as collateral for the loan engagements. The oil production from Cavalo Marinho field is pledged to one of the company's lenders.

The parent company has provided guarantee letters for certain loans that its subsidiaries have in Brazil, totaling USD 8.8 million.

USA
Nornew Inc., the main E&P entity in Norse Energy US has pledged all its assets for the revolving credit line. The net book value of assets pledged under this agreement is USD 55.3 million. In addition, Mid American Natural Resources has pledged cash accounts as security for letters of credit, refer to note 13 for details on the restrictions on cash accounts.

NOTE 18 Other commitments and contingent liabilities

Brazil
In Brazil, the company has certain commitments related to its various licenses. In the BCAM-40 license, drilling of the Dendê prospect is currently estimated to cost about USD 5 million, while the budgeted drilling commitment for the Canela prospect is about USD 8 million and is under assessment by the partners. Following the farm-out of the BM-CAL 5 block in April 2009, the company does not have any further drilling commitments related to this block. In the BM-CAL 6 license, there are no further commitments. In the Round 9 exploration blocks (S-M-1035, S-M-1036 and S-M-1100), the work program commitment is related to seismic study and is part of the ANP requirement to be completed three years after the licenses have been awarded. The cost is estimated to be around USD 8 million.

The company has booked contingent liabilities related to various acquisitions that occurred in 2005 and 2006. These liabilities are contingent upon certain milestones and consist of USD 1.5 million related Cavalo Marinho, USD 4.0 million related to Sardinha and USD 3.0 million related to Estrela-do-Mar.

USA
In the US the company is leasing the land where natural gas is being produced. Such leasing contracts are entered into before drilling of the wells start, and should the drilling fail to find any producible gas; the leasing contract can be immediately terminated. The company pays a 12.5% royalty of gross revenue from natural gas production to the landowners in the US, where the land is leased.

NOTE 19 Related parties transactions

Norse Energy has certain transaction with related parties. See note 10 in the parent company's notes for shares owned by Officers and Board directors in Norse Energy.

Norway
The company leases a parking space in Oslo from the CEO for NOK 1,500 per month, equalling approximately USD 3,200 and USD 3,000 in 2008 and 2007, respectively.

In early 2007, the company received 200,000 shares in Biofuel Energy ASA as payment for services rendered. During 2008, the company purchased another 300,000 shares in Biofuel and subsequently sold all shares. The shares were sold at the current fair market value of NOK 11 to Øivind Risberg, the CEO of Norse Energy Corp ASA. The chairman of the Board in Norse Energy, Petter Mannsverk Andresen, is also the former CEO of Biofuel Energy ASA.

Brazil
Jose Almeida dos Santos, Director of Norse Energy do Brazil owns 0.9% of Starfish Oil and Gas SA (Starfish). Norse Energy acquired in 2006 a 7.5% interest in Coral, Estrela-do-Mar and Cavalo Marinho fields from Starfish for USD 17.5 million, of which payment of USD 3 million is conditional to performance of the fields. In addition, the company owns interests in two onshore blocks in BT-REC-22 and BT-REC-30 where Starfish is the operator.

Norse Energy do Brasil has a long term note receivable to Kjetil Solbrække – Head of Brazilian operations. Refer to note 5 for details on the terms of this loan

USA
Norse Energy Corp USA, through its subsidiary Nornew Inc. performs well tending services and provides technical support and other expertise to Somerset Production LLC of which Norse Energy Corp US holds 18.08% of the shares. For 2008, Norse Energy has billed approximately USD 4.0 million for services and expense reimbursement. As of December 31, 2008 Norse Energy has a net receivable of USD 0.4 million.

Norse Energy Corp USA has a long term note receivable on Øivind Risberg – CEO and Head of US operations. Refer to note 5 for details on the terms of this loan.

NOTE 20 Financial risk management

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

Financial risk management is carried out by employees in the parent company Norse Energy Corp. ASA in Oslo under policies approved by the Board of Directors. Management of Norse Energy Corp. ASA identifies, evaluates and hedges financial risks in close cooperation with the operating units in Brazil and USA. The Board of Directors reviews these written principles for overall risk management and the policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, as well as investment of excess liquidity.

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

Liquidity risk
Liquidity risk is the risk that the Group will not be able to meet its obligations as they fall due. Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, the availability of funding from an adequate amount of committed credit facilities, and the ability to close out market positions. Due to the dynamic nature of our underlying business, parent company management maintains flexibility in funding by maintaining availability under committed credit lines and through the bond market. In addition, management obtains funding through reserve based lending in the US and assets based lending in both the US and Brazil.

Note 10 sets out the maturity profile of the financial liabilities of the Group based on contractual undiscounted payments.

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

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

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

The credit risk of the buyer of the oil (Petrobras) to default on the payment is considered to be very low. The credit risks for the sale of natural gas, and sale and purchase of natural gas via the subsidiary Mid American Natural Resources ("MANR") and from the US G&T Division is similarly considered to be low as historically the amount of default of receivables has been very low and the company has implemented routines to screen the customers. The company has secured significant guarantees from customers of MANR.

Note 10 sets out the Group's maximum risk exposure.

Market risk
Foreign exchange risk
The company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Norwegian Kroner (NOK), the US dollar (USD) and the Brazilian Reais (BRL). Management has set up a policy where group companies are required to manage their foreign exchange risk against their functional currency. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the entity's functional currency.

The company has investments in foreign operations, whose net assets are exposed to foreign currency translation risk. However, the company has obtained loans in BRL to mitigate the currency risk arising from the subsidiaries net assets.

The company uses cross currency interest rate swaps to hedge the forward foreign currency risk associated with certain foreign currency denominated bond loans, all in NOK. The company's policy is to hedge all loans denominated in NOK except working capital for the headquarters in Norway. During late 2008 the Company renegotiated a substantial part of its interest bearing debt denominated in NOK to USD denominated loans, reducing the need for hedging derivatives. Currently, all remaining NOK-denominated liabilities are hedged with currency interest rate swaps

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

To manage interest rate risk, management retains a proportion of fixed to floating rate borrowings within limits approved by the Board of Directors. We will achieve this through obtaining a mix of fixed and floating rate term debt, and by entering into interest rate swaps.

Commodity price risk
The nature of the company's industry is subject to considerable price volatility, over which we hold little control, and a material decline in commodity prices could result in a decrease in our production revenue. To manage this risk, we strive to keep a balance between fixed and floating price contracts.

OIL
The company currently only has oil production in Brazil. Due to the volatility in the oil production volumes in recent periods, it is the company's policy not to sell any oil forward. Instead, oil put options that provide a floor for the price of oil sold in Brazil is deemed an appropriate risk management tool. It is company policy that oil put options are considered for a part of the expected production volumes.

As the production from the only oil producing field of the Company, the Coral field, declined rapidly in 4th quarter and is currently in entering into the abandonment phase, the exposure to oil price volatility is limited.

NATURAL GAS
The Group has natural gas production both in Brazil and in the US.

In Brazil, a fixed price contract, which is adjusted annually for inflation and with price renegotiation in three years, has been established with Petrobras. This take-or-pay contract has a term related to minimum and a maximum volume produced. As Petrobras is deemed as a higher creditworthy customer, no further risk management measures are deemed necessary for the natural gas production in Brazil.

In the US, the company's natural gas production is subject to market price fluctuations. As operator for most all of the US gas production, the company is also the seller of most all our production. The company's gas production is not exposed to significant production interruptions outside of the potential freeze ups wintertime or when interstate pipelines, which we transport most all our production, are down for maintenance or we have compression downtime as most of the gas production requires compression for sale.

Due to historical limited downtime, almost all our US gas production is therefore deemed acceptable to use fixed price forward sales contracts to secure certain profits level. These forward contracts can be either physical or financial derivative based. Historically the company has been using both the physical and financial markets to secure some of its future production. In general the Company has a policy to hedge not more than 60% of proven production, which could be increased to 80% in more special circumstances. Currently any hedging is subject to Board of Directors approval.

Marketing activity risk
Our Energy Marketing division generates a margin through sales and purchases of physical volumes of natural gas. The majority of the fixed price purchase-contracts, both financial and physical, are balanced with fixed price sales-contracts, financial or physical.

NOTE 21 Legal proceedings

Legal proceedings as of year-end 2008

Brazil

Norse Energy do Brasil is a party in a lawsuit filed by the Municipality of Cairu- Bahia, against ANP – Brazilian Petroleum Agency, Petrobras, Queiroz Galvão Oleo & Gas and Brasoil Manati Exploração Petrolífera, June 12th, 2008. The Municipality of Cairu is demanding that the concession agreement is declared invalid and that the royalty is increased from the current level of 7.5% to 10%. In addition the municipality claims that the difference of 2.5% is paid with retroactive effect from the startup date. Our legal advisors in the process evaluate the risk of financial liabilities associated with this lawsuit as remote. No accrual has been made related to this issue.

The Association of Petrobras Engineers (AEPET) filed a lawsuit against The Brazilian Petroleum Agency (ANP) and all companies that bid on concessions in the ANP 3rd Round. The purpose of this lawsuit was to annul the 3rd Bid Round as well as all the concession contracts signed as a result of this bid round. Since the company's subsidiary Rio das Contas acquired the concessions in BM-CAL 5 & 6 that was granted to Petroserv in this bid round, the company was summoned to reply to the lawsuit. The company evaluates the risk related to this lawsuit to be remote as the arguments used to annul the 3rd Bid Round and signed concession contracts are inconsistent, and are against previous jurisprudences of the Court of the State of Rio de Janeiro. No accrual has been made related to this lawsuit.

The company's subsidiary Rio das Contas is a party in a lawsuit filed by the Fishermen Association in the Manati Project region demanding indemnification for environmental damages as a result of alleged non-implementation of the compensatory measures established on the Environmental studies and reports part of the Environmental Licensing Process. There was a subsidiary request for an injunction to suspend the activities of implementation of the platform, pipeline and all infrastructure related to the project, which was not granted by the Court. The company evaluates the risk associated with this law suit as remote since the basic argument is that the implementation of the Manati project has caused environmental damages, but throughout the petition there was no indication of a concrete damage. The issuance of the IBAMA Operation License further strengthens the company's case. No accrual has been made related to this lawsuit.

We are under an administrative proceeding with the tax authorities regarding PIS (Social Integration Program) and COFINS (Social Securities on Revenues) levied on financial revenues, which on December 31, 2008, totaled approximately USD 1 million. Based on the opinion of our legal advisors, we believe the risk of loss is considered remote. Accordingly, no accrual has been made in the financial statement related to this administrative proceeding.

USA

Two separate lawsuits on the docket involve injury to an employee of a drilling services company who was purported injured during drilling operations. In each respective case, the drilling company was under contract to Nornew, Inc, a subsidiary of Norse Energy Corp. ASA. In each lawsuit, Nornew, Inc. is contractually indemnified by the drilling company from liability for any damages awarded pursuant to these causes of action, thus Nornew does not anticipate any liability resulting from these causes of action.

In May 2008, a lawsuit was brought against Nornew, Inc. related to damages suffered to certain real property. The owner of the property contends that Nornew, Inc. trespassed onto her property and harvested and removed timber from it. She seeks damages of USD85,000 for the timber and USD255,000 for a treble damage award. The case is in the early stages and it is too difficult to determine the likelihood of an unfavorable outcome. We have not accrued any liabilities related to this claim.

One of the legal advisers of Norse Pipeline has advised the Company of the substantial likelihood that the parcels of real property comprising the "penny pipeline" will be assessed at amounts substantially in excess of the previous assessments for property tax purposes. This will require a legal challenge to maintain current assessment levels. The magnitude of the anticipated assessments cannot be determined at this time. The Company has not accrued for any amounts relating to this potential assessment.

NOTE 22 Company structure

The table below sets out Norse Energy's company structure as of December 31, 2008.

Company	Subsidiaries	Ownership (in %)	Nationality of subsidiary
Norse Energy Corp. ASA	Norse Energy AS	100	Norway
	Norse Energy Corp. USA	100	USA
	Naftex Energy Corporation	100	Canada
	Norse Energy do Brasil S.A.	99.99	Brazil
	Coplex Petroleo do Brasil Ltda.	0.01	Brazil
Naftex Energy Corporation	Naftex Energy (Whitehorse) Limited	100	Canada
	Naftex Energy (Yukon) Limited	100	Canada
Norse Energy do Brasil S.A.	Coplex Petroleo do Brasil Ltda.	99.99	Brazil
	Rio das Contas Produtora de Petroleo Ltda	57	Brazil
Coplex Petroleo do Brasil Ltda.	Rio das Contas Produtora de Petroleo Ltda	43	Brazil
Norse Energy Corp. USA	Nornew, Inc.	100	USA
	Nornew Energy Supply, Inc.	100	USA
	Norse Pipeline, LLC	100	USA
	Mid American Natural Resources, LLC	100	USA
	NEC Drilling, LLC	100	USA
	Strategic Energy Corporation	50	USA
Strategic Energy Corporation	MariCo Oil and Gas Corporation	100	USA
Nornew, Inc.	Vandermark Exploration, Inc.	100	USA
NEC Drilling LLC	Drillco Inc.	100	USA

NOTE 23 Subsequent events

Norway
In January 2009, the company terminated own bonds in the bond issues NEC01, NEC03 and NEC04. The company terminated MNOK 13.5 in NEC01, MNOK 200.0 in NEC03 and MNOK 126.0 in NEC04. The NEC03 bond issue was fully terminated and subsequently deleted, whereas the remaining loans in NEC01 and NEC04 after this termination were MNOK 286.5 and MNOK 27, respectively.

Brazil
In April 2009, the company accepted an offer from Petrobras and Queiroz Galvao to take over the company's 18.3% participating interest in block BM-CAL 5 offshore Brazil (the Copaiba discovery and Jequitiba prospect). Norse Energy will not receive any compensation, but the transfer of ownership implies that the company will not carry any further drilling costs in BM-CAL 5. As a result, an impairment charge related to the license and the capitalized exploration costs has been made per year-end 2008.

In April 2009, the company announced that the drilling of the Cravo prospect in BCAM-40 has been completed. The well was logged and showed that the main target in the Sergi sandstone was water bearing. The well will be plugged and abandoned. As a result, capitalized exploration costs per year-end 2008 have been charged to the income statement.

Refer to note 8 for further details on the related impairment charges.

USA
In March 2009, the company experienced a well fire while removing drill pipe in connection with drilling an onshore gas well in New York State. Property damage appears to be minimal, and no material accounting impact is expected.

NOTE 24 Reserves (unaudited)

The company 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.

Each region (division) has a long standing relation with its certification agents; Gaffney, Cline & Associates in Brazil and Schlumberger Technology Corporation in the US.

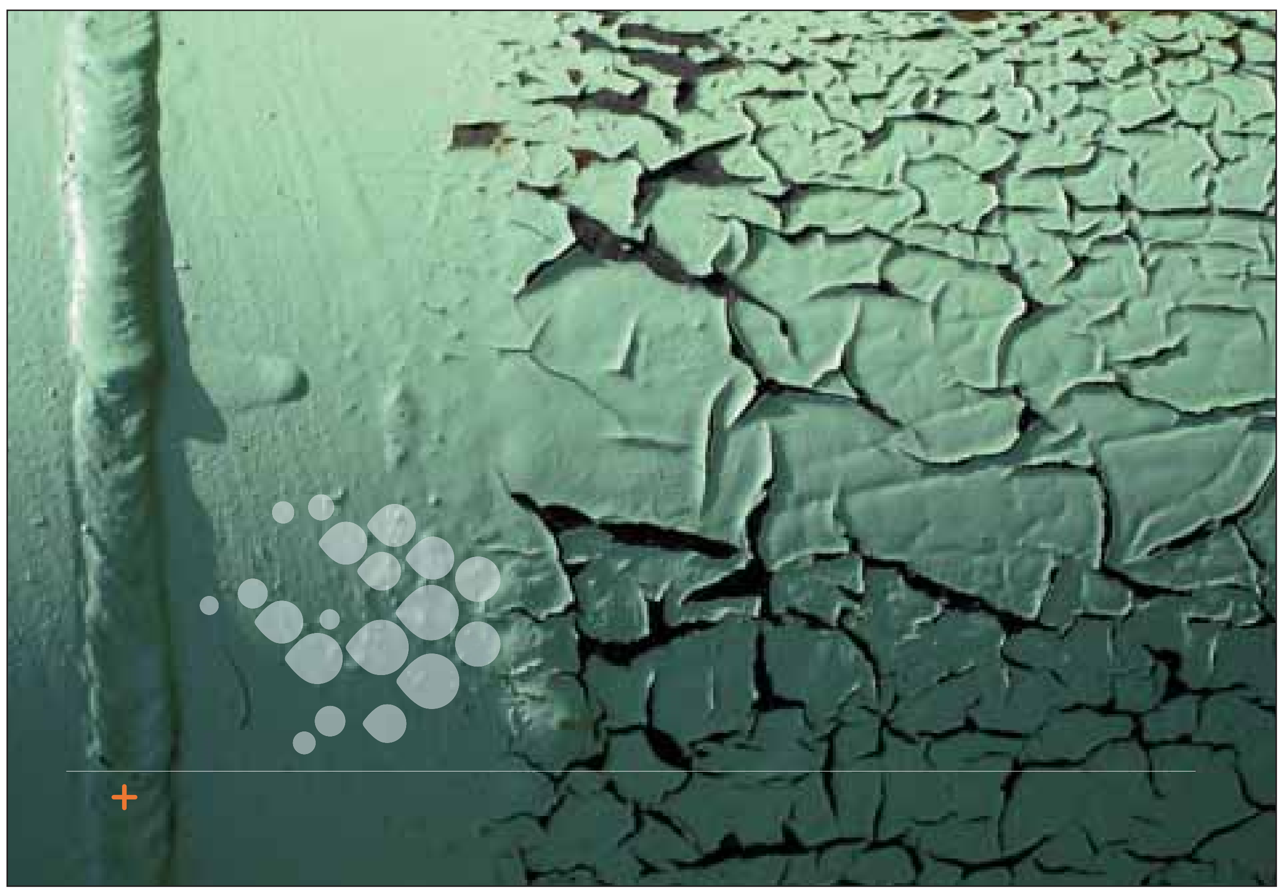
The following is a summary of key results from the reserve reports (net to the company's share):

Norse segment	1P reserves (MMBOE)	2P reserves (MMBOE)	3P reserves (MMBOE)
Total US	4.35	7.25	8.32
Estrela-do-Mar	-	5.70	6.80
Cavalo Marinho	5.66	14.17	20.29
Manati	12.80	16.65	18.64
Total Brazil	18.46	36.52	45.73
NEC TOTAL	**22.81**	**43.77**	**54.05**

During 2008, the company has had the following reserves development:

Reserves Development	2P reserves (MMBOE)
Balance (previous ASR) as of December 31, 2007	48.12
Production 2008	-1.85[1]
Acquisitions/disposals since previous ASR	-9.72
Extensions and discoveries since previous ASR	-
New developments since previous ASR	3.88
Revisions of previous estimates	3.34
Balance (current ASR) as of December 31, 2008	**43.77**

1 Brazil 1.69 MMBOE, US 0.16 MMBOE



PARENT COMPANY FINANCIAL STATEMENTS

Parent Company Income Statement

(Amounts in NOK 1,000) For the years ended December 31,	Note	2008	2007	2006
Operating income				
Operating revenues		5,789	572	626
Total operating income	2	**5,789**	**572**	**626**
Operating expenses				
Sales, administrative and general expenses	3	30,966	16,235	14,763
Depletion and depreciation	4	140	77	44
Total operating expenses		**31,105**	**16,312**	**14,807**
Operating profit (loss)		**-25,317**	**-15,740**	**-14,182**
Financial items				
Interest received from subsidiaries	2	50,838	30,546	24,369
Other interest income		2,793	7,314	5,299
Other financial income	6	4,726	44,971	34
Currency gain/loss	6	169,632	-38,813	-28,377
Interest costs	5	-71,996	-69,635	-46,003
Loss on derivatives	6	-	-7,114	-24,110
Impairment of subsidiary	6	-4,325	-198,398	-
Other financial costs		-9,370	-5,859	-3,317
Net financial items		**142,299**	**-236,987**	**-72,105**
Results from continued operations		**116,982**	**-252,727**	**-86,286**
Taxes	7	-	-	-
Net profit (loss) from ordinary activities		**116,982**	**-252,727**	**-86,286**
Net profit (loss) for the year		**116,982**	**-252,727**	**-86,286**

The Board of Directors

Lysaker, April 20, 2009
Norse Energy Corp. ASA

Petter Mannsverk Andresen
Chairman of the Board

Bjarte Bruheim
Director

Kathleen Arthur
Director

Jon-Aksel Torgersen
Director

Lise Heien Langaard
Director

Øivind Risberg
Chief Executive Officer

Parent Company Balance Sheet

(Amounts in NOK 1,000) As of December 31,	Note	2008	2007
ASSETS			
Non-current assets			
Furniture, fixtures and office equipment	4	487	258
Investment in subsidiaries	8	521,029	521,029
Loan to subsidiaries	2	710,000	435,541
Financial derivatives		-	-
Other non-current assets		-	60
Total non-current assets		**1,231,516**	**956,888**
Current assets			
Loan to subsidiaries	2	508,162	362,520
Other current assets		1,896	766
Cash and cash equivalents	9	62,627	156,354
Total current assets		**572,685**	**519,641**
TOTAL ASSETS		**1,804,202**	**1,476,529**

Parent Company Balance Sheet

(Amounts in NOK 1,000) As of December 31,	Note	2008	2007
EQUITY AND LIABILITIES			
EQUITY			
Paid-in capital			
Share capital		310,785	310,345
Share premium reserve		1,310	295,605
Other paid-in capital		295,605	-
Treasury shares		-92	-92
Total paid-in capital		**607,607**	**605,858**
Retained earnings			
Other equity		118,496	-
Total retained earnings		**118,496**	-
TOTAL EQUITY	10	726,104	605,857
LIABILITIES			
Long term liabilities			
Provision for accruals		713	713
Pension liability	3	-	-
Bond loan	5	1,033,924	832,456
Total long term liabilities		**1,034,637**	**833,169**
Current liabilities			
Accounts payable		1,338	31
Other current liabilities		42,123	37,472
Total current liabilities		**43,461**	**37,503**
TOTAL LIABILITIES		1,078,098	870,671
TOTAL EQUITY AND LIABILITIES		1,804,202	1,476,529

Parent Company Statement of Cash Flow

(Amounts in NOK 1,000) For the years ended December 31,	2008	2007
Cash Flow from operating activities		
Net profit/(loss) for the year	116,982	-252,727
Depreciation	140	77
Employee options expensed	1,515	589
Impairment on investment in subsidiary	-	198,398
Change in other assets and liabilities	-152,887	43,670
Net cash flows from operating activities	**-34,250**	**-9,993**
Cash flows from investing activities		
Change in investments in subsidiaries	-	-97,158
Increase in loans to subsidiaries	-164,815	-138,220
Investments in office Equipment	-369	-64
Investment in Biofuel Energy ASA	-3,300	-60
Proceeds from sale shares in Biofuel Energy ASA	5,500	-
Net cash flows from investing activities	**-162,984**	**-235,502**
Cash flows from financing activities		
Proceed from issuance of long-term debt	211,599	197,500
Repayment of long-term debt	-213,500	-
Termination of currency swaps	74,901	-
Proceeds from sale of oil put options	2,524	-
Net proceeds from issuance of shares	1,750	-
Net cash flows from financing activities	**77,274**	**197,500**
Net increase in cash and cash equivalents	**-119,960**	**-47,995**
Cash and cash equivalents at the beginning of the year	156,354	218,457
Effects of exchange rate changes on the balance of cash held in foreign currencies	26,233	-14,108
Cash and cash equivalents at the end of the financial year	**62,627**	**156,354**

NOTES to Parent Company Financial Statements

NOTE 1 Accounting principles

The annual accounts for the parent company Norse Energy Corp. ASA have been prepared in accordance with the provisions of the Norwegian Accounting Act and Norwegian Generally Accepted Accounting Principles (NGAAP). The consolidated financial statements have been prepared under International Financial Reporting Standards (IFRS) and are presented separately from the parent company.

The accounting policies under IFRS are described in note 1 to the consolidated financial statements. The accounting principles applied under NGAAP are in conformity with IFRS unless otherwise stated in the notes below.

The parent company's annual financial statements are presented in Norwegian Kroner (NOK) which is the currency used for accounting purposes. Shares in subsidiaries and other shares are recorded in Norse Energy Corp. ASA's accounts using the cost method of accounting. Bond loans are booked net of the amortized transaction costs, and the transaction costs are amortized over the loan period.

NOTE 2 Transactions and balances with subsidiaries

Operating revenues relate exclusively to the provision of administrative services to subsidiaries.

Outstanding loans and balances with subsidiaries (denominated in USD) amount to NOK 1.218 million, including accrued interest, per exchange rate at year-end 2008. Per year-end 2007, outstanding loans amounted to NOK 798 million.

The parent company's loan to the Brazilian subsidiaries Coplex, Rio das Contas and Norse Energy do Brasil, as well as the Norwegian subsidiary Norse Energy AS are considered to be short term, and amounts per year-end 2008 to USD 101 million (NOK 710 million) compared to USD 80 million (NOK 436 million) in 2007. Loan to Naftex at year-end 2008 and 2007 was written off to NOK 0 as recoverability was uncertain.

Loans to Norse Energy Corp. USA amounts to USD 73 million (NOK 508 million) per year-end 2008, and are considered to be long term loans. Per year-end 2007, these loans amounted to USD 67 million (NOK 363 million).

NOTE 3 Sales, administrative and general expenses

Salaries

The parent company had 6 employees at December 31, 2008, and an average of 5.5 employees during the year, compared to 5 employees at December 31, 2007 and an average of 5 during 2007. Wages and salaries for these employees are included in Sales, administrative and general expenses.

For details on both CEO Mr. Øivind Risberg and CFO Mr. Anders Kapstad remuneration for 2007 and 2008, refer to note 5 in the consolidated financial statements.

Norse Energy has two option programs amounting to a total of 18 million shares, approved by the Annual General Meetings held on May 23, 2006 and May 20, 2008. At the beginning of the year, 9.9 million of these options were granted to key employees, and no additional grants were made during 2008. For further details on this program, see note 11 in the consolidated financial statements.

Breakdown on wages and other compensation to the employees:

(Amounts in NOK 1,000)	2008	2007	2006
Wages	6,559	4,843	2,949
Employer's contribution	1,340	1,105	563
Pension costs	391	327	550
Other compensation	1582	848	586
Total wage expenses and other compensation	**9,872**	**7,123**	**4,648**

Board of Directors remuneration
Remuneration of members of the Board and committees of the Board is summarized below:

(Amounts in NOK 1,000)	2008	2007	2006
Petter Mannsverk Andresen, Chairman (former Board member)	350	375	150
Bjarte Bruheim, Board member	-	-	-
Joey S. Horn, former Board member	300	375	150
Jon-Aksel Torgersen, Board member	300	375	150
Kathleen Arthur, Board member	-	-	-
Lise Heien Langaard, Board member	300	-	-
Øivind Risberg, CEO (former Board member)	-	-	-
Axel C. Eitzen, former Chairman	-	425	200
Total	**1,250**	**1,550**	**650**

NOK 1,250,000 was paid in June 2008, of which NOK 625,000 related to 2007. Per year-end, NOK 625,000 is accrued for the second half of 2008.

NOK 1,550,000 was paid in June 2007, of which NOK 925,000 related to 2006. Per year-end 2007, NOK 625,000 was accrued for the second half of 2007. NOK 650,000 was paid in June 2006, of which NOK 325,000 related to 2005.

Pension

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 established a pension scheme in 2006 that meet the requirements of that law. In June 2007, the company changed the pension scheme to a defined contribution scheme. Subsequent to this change, no pension liability is recognized in the balance sheet. Expenses related to the new scheme of NOK 390,930 was incurred during 2008, and NOK 154,392 was incurred from June to December 2007.

Auditor

The company´s Annual General Meeting elected Deloitte as group auditors from the financial year 2008. Thus the 2008 figures include audit, tax and advisory services from both Deloitte and the predecessor group auditor Ernst & Young. The company expensed the following amounts (exclusive VAT) for services provided by the company's auditors:

(Amounts in NOK 1,000)	2008	2007	2006
Ernst & Young			
Statutory audit and audit related services	839	1,030	874
Tax services	-	-	95
Consulting, other services	-	44	163
Deloitte			
Statutory audit and audit related services	400	-	-
Tax services	58	-	-
Consulting, other services	11	-	-
Total expensed costs	**1,308**	**1,074**	**1,132**

NOTE 4 Furniture, fixtures and office equipment

The company has the following office equipment:

(Amounts in NOK 1,000)	Furniture and fixtures	IT and office equipment	Total
Acquisition cost at January 1, 2008	212	200	412
Investments	98	271	369
Disposals	-	-	-
Acquisition cost at December 31, 2008	310	471	781
Accumulated depreciation	99	195	294
Net Book Value at December 31, 2008	**211**	**276**	**487**
Depreciation for the year	27	113	140

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

NOTE 5 Bond loans

During 2008, bondholders in NEC01 representing NOK 14 million and bondholders in NEC03 representing NOK 139 million exchanged the existing bonds for bonds in a new issue; NEC04. The purpose of this was to extend the maturity date from July 2010 to September 2012 and to change from floating to fixed interest rate. The new callable bond issue was issued on September 25, 2008 for a total of NOK 153 million with a fixed interest rate of 11.5% and maturity date September 25, 2012.

Subsequent to this, the company extended a voluntary offer to the bondholders in this new NOK 153 million bond issue and in NEC03 to exchange the existing bonds at par value for bonds in two new issues. The purpose of these offers was to exchange existing bonds denominated in NOK for new bonds with USD currency and fixed interest of 9.5% and 10.707%, respectively. Bond holders representing NOK 126 million and NOK 60.5 million, respectively, accepted this offer. As a result of these exchanges in bonds, the company formally held own bonds of NOK 339.5 million by the end of the year. After the close of the year, these own bonds were terminated. This had no cash effect for the company.

NOK 286 million bond loan ("NEC01")
The company issued a 5-year senior unsecured bond loan in 2005, with a total borrowing limit of NOK 300 million. NOK 200 million was issued in July 2005, while the final tranche of NOK 100 million was issued in November 2005. The loan will mature on July 13, 2010, and is listed on the Oslo Stock Exchange (OSE) under the ticker "NEC01". The bond is a fixed 5-year bullet loan, is unsecured and has an annual coupon of 10%. The company is not holding any own bonds per year-end 2008.

During 2008, bondholders representing NOK 14 million exchanged bonds in NEC01 for a new bond issue called "NEC04" (see text below) thereby extending the maturity date of the loan and leaving the balance for NEC01 at NOK 286 million per year-end.

Norsk Tillitsmann ASA ("Norwegian Trustee") is representing the various bond holders.

Late November 2005 Norse Energy swapped NOK 250 million into USD 37.5 million at exchange rate NOK/USD 6.665 at a 5-year fixed rate of 10.89%. Norse Energy will receive 10% on NOK 250 million annually from Nordea until maturity in July 2010. Norse Energy is obliged to pay Nordea 10.89% on USD 37.5 million biannually until maturity in July 2010. The swap transaction is fair value adjusted each quarter, and any fair value adjustment is booked towards profit and loss. Per year-end 2007 the fair value of the currency swap was USD 8.8 million. In July 2008, the company terminated the currency swap at USD/NOK rate of 5.03, realizing a gain of USD 11.9 million. The accumulated profit and loss effect of the swap was recognized in 2008.

Upon issuance of NEC04 in September 2008, the company entered into a new currency swap in order to reduce the NOK exposure. A total of NOK 139 million was swapped into USD 24.1 million. Any upward/downward movement in the NOK/USD exchange rate will result in a loss/gain on the currency swap and a corresponding margin call/release. As the majority of the NEC04 bondholders later in the year exchanged their bonds into a new USD denominated bond loan, the currency swap was instead tailored to match the cash flows of NEC01 and the currency swap will last until July 2010. This transaction required an initial USD 1.7 million deposit (fixed until maturity) and any upward movement NOK/USD and/or LIBOR rates will trigger extra margin calls. A fall in NOK/USD and/or LIBOR rates will relieve the company of less margin calls. Per December 31, 2008, the deposit totaled USD 6.9 million. Per year-end, the fair value of this currency swap was negative USD 4.7 million. The value of the currency swap increased the carrying value of the bond loan.

The main covenants for the bond loan are as follows:
- Book equity of minimum USD 50 million in the parent company.
- Within a calendar year from when the loan was issued, Norse cannot make any dividend payments; shares repurchases, or make any other distributions that constitutes more than 50% of net profits after taxes.
- Total equity shall constitute at least 30% of "Capital employed" in the parent company. "Capital employed" is defined as Norse Energy's total equity plus interest bearing debt, including financial instruments that have the commercial effect of borrowing, including guarantees and leasing commitments.

The interest from this loan amounted to approximately NOK 25 million in 2008.

USD 75 million bond loan ("NEC02")
In July 2006, the company issued 50,000 bonds at a nominal value of USD 1,000 per bond for a total of USD 50 million and in November 2006 another 25,000 bonds was issued at a nominal value of USD 1,000 per bond, bringing the total bond loan to USD 75 million. The bonds mature on July 14, 2011, and are listed on OSE under the ticker code "NEC02". The bond loan is unsecured and carries a fixed interest rate of 6.5% p.a.

Each bond subscriber was allotted 1,000 warrants per bond free of charge. The warrants give the holder the right to subscribe for one new share in the company at an exercise price of NOK 6.10 per share. The warrants are listed separately on OSE under the ticker code "NECJ".

In accordance with NGAAP, the bond loan is booked net of the amortized transaction costs. These transaction costs will be amortized over the loan period. As of December 31, 2008, the loan amounted to NOK 525 million.

The interest from this loan amounted to approximately NOK 28 million in 2008.

NOK 0.5 million and USD 8.8 million bond loan ("NEC03PRO" and "NEC03")
In June 2007, the company raised NOK 100 million in a 3-year bond issue yielding 3 months NIBOR plus a margin of 4.25%. In August 2007, the company raised another NOK 100 million under this facility at the same terms. The bond issue is unsecured and it is listed on the Alternative Bond Market (ABM) as "FRN Norse Energy Corp. 07/10 CALL".

During 2008, bondholders representing NOK 139 million exchanged their bonds for bonds in NEC04, thereby reducing the loan balance to NOK 61 million. Towards the end of the year, bondholders representing NOK 60.5 million converted their bonds into USD, accepting the company's offer and a new bond issue named NEC03 of USD 8.8 million was established using an exchange rate USD/NOK of 6.92. NOK 0.5 million remained under the original loan facility.

Norsk Tillitsmann ASA ("Norwegian Trustee") is representing the various bond holders.

During November 2007, Norse Energy swapped the NOK 200 million into USD 36.7 million at average exchange rate NOK/USD 5.450 at a floating interest rate of 3 months LIBOR + a margin of 4.40%. Norse Energy will receive 3 months NIBOR + 4.25% quarterly from Nordea until maturity in July 2010. Norse Energy is obliged to pay Nordea 3 months LIBOR + 4.40% quarterly until maturity in July 2010. The swap transaction is fair value adjusted each quarter, and any fair value adjustment is booked towards profit and loss. Per year-end 2007 the fair value of the currency swap was USD 0.2 million. In July 2008, the company terminated the currency swap at USD/NOK rate of 5.03, realizing a gain of USD 3.0 million. The accumulated profit and loss effect of the swap was recognized in 2008.

The main covenants for the bond loan are the same as the NOK 286 million bond loan.

The interest from these loans amounted to approximately NOK 14 million in 2008.

NOK 27 million and USD 17.8 million bond loan ("NEC04PRO" and "NEC04")
The new NEC04 bond loan was established during the year upon the exchange of bonds from NEC01 and NEC03 for a total of NOK 153 million. This is a 4-year bond issue yielding fixed interest of 11.5% with semi-annual payments. Next, bondholders representing NOK 126 million converted their bonds into USD, accepting the company's offer and a new bond issue NEC04 of USD 17.8 million was established using an exchange rate of USD/NOK 7.08. NOK 27 million remained under the original loan facility.

Norsk Tillitsmann ASA ("Norwegian Trustee") is representing the various bond holders. The main covenants for the bond loan are the same as the NOK 286 million bond loan.

The interest from these loans amounted to approximately NOK 5 million in 2008.

NOTE 6 Derivatives and impairment of subsidiary

The company is utilizing various financial instruments to hedge against financial market risks. For a discussion on financial market and business risks, refer to note 20 in the consolidated financial statements.

In addition to these derivatives, the company has also entered into a new currency swap in 2008 related to NEC01, swapping parts of the loan from NOK to USD. However, the effect of the currency swap has been presented as part of the currency gain/loss for the year as it is directly linked to the gain or loss that derives from the bond loan.

(Amounts in NOK 1,000)	2008	2007	2006
Oil put option	-	7,114	11,265
Revus forward contract	-	-	12,845
Total loss on derivatives	-	7,114	24,110
Oil put option	2,524	-	-
Revus forward contract	-	44,100	-
Sale of Biofuel shares	2,140	-	-
Other items	62	871	34
Total gain on derivatives	4,726	44,971	34

The shares in Biofuel Energy were sold during 2008, resulting in a gain of NOK 2.1 million. See further details under note 12 Related parties. The remaining oil put options were settled in late 2008, and resulted in a total gain of NOK 2.5 million. Following this sale, the company does not hold any oil put options.

The Revus forward contract was settled in the beginning of 2007 and resulted in a net gain for the year of NOK 44.1 million.

The impairment of subsidiary in 2007 of NOK 198 million is related to Norse Energy's investment in Naftex (NOK 189 million) and receivable on Naftex (NOK 9 million). Following this impairment charge, the investment in and receivable on Naftex was booked at NOK 0. For 2008, an impairment charge related to a receivable on Naftex of NOK 4 million was charged to the income statement.

Refer to note 10 in the consolidated financial statements for details on the derivatives above.

The company's foreign exchange gain in 2008 of NOK 169 million is mainly a result of gain on USD denominated intercompany receivables as the USD strengthened through 2008. This gain is only partially offset by the foreign exchange loss on the company's USD denominated external loans and currency swaps.

NOTE 7 Tax

Specification of the year's income tax expense:

(Amounts in NOK 1,000)	2008	2007	2006
Tax payable	-	-	-
Change in deferred tax	-	-	-
Total Income tax	-	-	-

Specification of the basis for tax payable:

	2008	2007	2006
Net profit/(-) loss for the year before tax	**116,982**	**-252,727**	**-86,287**
+ Effect of permanent differences	753	145,643	7,965
+ Effect of temporary differences	-117,735	107,084	78,322
Basis for tax payable	-	-	-

Specification of the deferred tax:

	2008	2007	2006
Furnitures, fixtures and office equipment	121	104	114
Accounts receivable	-13,604	-9,279	-
Financial instruments	-17,268	56,240	25,315
Pensions and other accruals	-775	-726	-516
Loss carried forward	-743,739	-939,339	-810,828
Basis for calculating deferred tax asset	**-775,265**	**-893,000**	**-785,915**
Calculated deferred tax asset (28%)	217,074	250,040	220,056
Deferred tax asset allowance	217,074	250,040	220,056
Deferred tax asset, recognized in Balance Sheet	-	-	-

The tax loss carried forward has an unlimited time limit. The deferred tax asset is not booked in the balance sheet due to uncertainty of future taxable profit. Certain changes have been made to the 2007 figures to conform to the filed 2007 tax returns.

NOTE 8 Investment in subsidiaries

Investments in subsidiaries are booked at the lower of cost and fair market value. Per year-end 2008, the holdings in subsidiaries consist of the following:

(Amounts in NOK 1,000) Company	Headquarter	Holding and voting rights	Book value
Naftex Energy Corporation	Vancouver, Canada	100%	-
Norse Energy AS	Lysaker, Norway	100%	100
Norse Energy do Brasil S.A.	Rio de Janeiro, Brazil	99%	286,707
Norse Energy Corp. USA	Houston, TX, USA	100%	234,218
Coplex Petroleo do Brasil Ltda.	Rio de Janeiro, Brazil	0.01%	4
Total			**521,029**

Coplex Petroleo do Brasil Ltda is wholly owned by Norse Energy do Brasil S.A.

NOTE 9 Cash and cash equivalents

Per December 31, 2008, NOK 48 million is restricted cash related to the currency swap on the NOK 286 million bond loan, and another NOK 0.6 million of the cash accounted for in the balance sheet is restricted for tax deductions related to wages.

NOTE 10 Shareholders equity and shareholder information

Nominal share capital in the parent company at December 31, 2008 amounted to NOK 310,784,786, consisting of 353,164,530 shares at a par value of NOK 0.88.

The table below shows the changes in equity in the Company during 2007 and 2008:

(Amounts in NOK 1,000)	Share capital	Share premium reserve	Other paid-in capital	Treasury shares	Other equity	TOTAL
Equity at January 1, 2007	310,345	626,987	-	-92	-79,245	857,995
Employee stock option expense	-	-	-	-	589	589
Net profit/(-) loss for the year	-	-252,727	-	-	-	-252,727
Transfer from share premium reserve to cover loss	-	-78,656	-	-	78,656	-
Equity at December 31, 2007	**310,345**	**295,605**	**-**	**-92**	**-**	**605,858**
Equity at January 1, 2008	310,345	295,605	-	-92	-	605,858
Share premium reserve reduction (not formallyregistered)	-	-295,605	295,605	-	-	-
Employee stock option expense	-	-	-	-	1,515	1,515
Stock options exercised	440	1,310	-	-	-	1,750
Net profit/(-) loss for the year	-	-	-	-	116,982	116,982
Equity at December 31, 2008	**310,785**	**1,310**	**295,605**	**-92**	**118,496**	**726,104**

Treasury shares
The company currently holds 104,605 treasury shares as of December 31, 2008, with a nominal value of NOK 92,052.

Ownership structure

The company had 4,729 shareholders per December 31, 2008. The twenty largest shareholders per year-end were:

	Shareholder	Number of shares	Holding in %
1	GOLDMAN SACHS INT. EQUITY	46,660,953	13.2%
2	UBS AG, LONDON BRANCH	32,989,786	9.3%
3	NORDEA BANK NORGE ASA MARKETS	14,000,000	4.0%
4	BJARTE HENRY BRUHEIM	11,300,000	3.2%
5	BANK OF NEW YORK, BRUSSELS BRANCH	10,292,702	2.9%
6	GOLDMAN SACHS INT. EQUITY	9,131,000	2.6%
7	VIKSUND AS	6,993,000	2.0%
8	SOLODDEN AS	6,561,394	1.9%
9	BANK2 ASA	6,257,500	1.8%
10	DANSKE BANK A/S	5,249,583	1.5%
11	NESTOR SHIPPING AS	5,061,000	1.4%
12	ALDEN AS	4,210,000	1.2%
13	JAN HENRY FARSTAD	4,107,616	1.2%
14	KAJUKA AS	3,500,000	1.0%
15	DNB NOR SMB	3,200,000	0.9%
16	WESTCAP A/S	3,000,000	0.8%
17	SAF-INVEST AS	3,000,000	0.8%
18	TYRHOLM & FARSTAD A/S	2,529,616	0.7%
19	NORDEA BANK DENMARK AS	2,428,352	0.7%
20	CSPN HOLDING AS	2,200,000	0.6%
	TOP 20 SHAREHOLDERS	**182,672,502**	**51.7%**
	OTHER SHAREHOLDERS	170,492,028	48.3%
	TOTAL SHARES	**353,164,530**	**100.0%**

Shares owned by the CEO and board members per December 31, 2008:

Shareholder	Position	# of shares	% of total
BJARTE BRUHEIM	DIRECTOR, NORSE ENERGY CORP. ASA	25,300,000	7.16%
ØIVIND RISBERG	CEO, NORSE ENERGY CORP. ASA	19,811,894	5.61%

In addition, Mr. Risberg holds 1,445,218 warrants in the company.

Shareholder distribution per December 31, 2008:

Amount of shares	# of shareholders	% of total	# shares	Holding in %
1–1,000	543	11.5%	318,593	0.1%
1,001–5,000	1,496	31.6%	4,328,486	1.2%
5,001–10,000	908	19.2%	7,564,274	2.1%
10,001–100,000	1,461	30.9%	50,221,539	14.2%
100,001–1,000,000	279	5.9%	77,828,695	22.0%
1,000,001 +	42	0.9%	212,902,943	60.3%
TOTAL	4,729	100.0%	353,164,530	100.0%

See note 11 to the consolidated financial statements for the company's option scheme and granted options.

NOTE 11

Guarantee liabilities

Norse Energy Corp. ASA has provided a performance guarantee to the Brazilian petroleum directorate ANP, in terms of which the company is liable for the commitments for Coral, Estrela do Mar, Cavalo Marinho, BCAM-40, BM-CAL 5 & 6, BT-REC 30 and Sardinha licenses in accordance with the given concessions for the licenses. The guarantee is unlimited.

The parent company has provided guarantee letters for certain loans that its subsidiaries have in Brazil, totaling USD 21 million. The parent company has also provided guarantee letters on behalf of the subsidiary Mid American Natural Resources totaling USD 0.6 million.

See also further details about financial and market risk in note 20 to the consolidated financial statements.

NOTE 12

Related parties

The parent company leases offices spaces from Eitzen Holding AS – a company controlled by Axel C. Eitzen, the former chairman of the Board of Norse Energy. For 2008 and 2007 the company was invoiced NOK 679,547 and NOK 510,592 in lease expenses, respectively. No liabilities were outstanding per the end of 2008 or 2007.

In early 2007, the company received 200,000 shares in Biofuel Energy ASA ("Biofuel") as payment for services rendered. The chairman of the Board in Norse Energy, Petter Mannsverk Andresen, was at the time also the CEO of Biofuel Energy ASA. During 2008, the company purchased another 300,000 shares in Biofuel in a public offering for NOK 11 per share. Following the public offering, the company sold all 500,000 shares to Øivind Risberg, the CEO of Norse Energy, at the same price – NOK 11 per share.

NOTE 13

Financial market risk and business risk

See details in note 20 in the consolidated financial statements.

NOTE 14

Subsequent events

Termination of own bonds
In January 2009, the company terminated own bonds in the bond issues NEC01, NEC03 and NEC04. The company terminated MNOK 13.5 in NEC01, MNOK 200.0 in NEC03 and MNOK 126.0 in NEC04. The NEC03 bond issue was fully terminated and subsequently deleted, whereas the remaining loans in NEC01 and NEC04 after this termination were MNOK 286.5 and MNOK 27, respectively.

+ AUDITOR'S REPORT

Deloitte.

STATEMENT ON CORPORATE GOVERNANCE in Norse Energy Corp. ASA

Norwegian listed companies are obliged to follow the principles set forth in The Norwegian Code of Practice for corporate governance. Norse Energy seeks to comply with all the requirements covered in the code. For a more in depth corporate governance report, reference is made to our website www.NorseEnergy.com.

1 Implementation and reporting on corporate governance
Norse Energy acknowledges that successful value-added business is profoundly dependent upon transparency and internal and external confidence and trust. Norse 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 Norse Energy's Code of Conduct is an invaluable tool in helping the Board to ensure that we properly discharge our duty.

Corporate Governance in Norse Energy
The Board will strive to work as an active and dynamic forum, acting in the best interest of Norse Energy and its beneficiaries. The Board is headed by the Chairman of the Board. The responsibility of the Chairman is to lead the work of the Board, and to ensure that this is in accordance with Norwegian law and the corporate governance directives. The Norwegian Code of Practice for corporate governance as of December 4, 2007 comprises 15 points as taken into account below.

2 Business Idea and Vision and Articles of Association
Norse Energy is the result of a merger of NaturGass (USA) AS, a Norwegian private company and Northern Oil ASA, a Norwegian publicly traded entity, whose shares were listed on the Oslo Stock Exchange ("OSE"). Norse Energy Corp. was listed on the OSE on July 13, 2005.

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, loan and/or guarantees."

The company's activities are divided into four segments:

- **Exploration and Production of oil and gas in Brazil**
  Norse Energy participates in multiple oil and gas exploration and production licenses primarily located in the Santos Basin and in the Camamu-Almada Basin offshore Brazil. One of these fields, Coral, has been in production since March 2003 until abandonment in December 2008, while the Manati gas field commenced production in January 2007.

- **Exploration and Production of natural gas in the US**
  The US E&P division is located in northern Appalachian Basin with offices in Buffalo, New York, and Pittsburgh, Pennsylvania.

- **Gathering & Transmission (pipeline system) in the US**
  The company owns and operates approximately 550 miles of gathering and transmission pipelines located in western New York and north-western Pennsylvania. The lines have outlets into major interstate pipelines, as well as to local end users.

- **Energy Marketing Division in the US**
  The EM division is made up of Mid American Natural Resources L.L.C., an established energy marketing and trading firm in the Appalachian region.

3 Equity & Dividend Policy
The group's book equity at December 31, 2008 was USD 67.7 million representing an equity ratio of 17%. The stock price closed at the end of the year at NOK 3.54.

Norse Energy's Board of Directors will assure 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 Norse Energy to be sufficiently capitalized.

Norse Energy's objectives are to create lasting values and provide competitive returns to its shareholders through profitability and growth. Dividends should arise in line with the growth in the company's results while at the same time recognizing the need for financial preparedness for cyclical market movements, as well as opportunities for adding value through new profitable investments.

The 2008 General Meeting authorized the Board to increase the share capital with up to NOK 146,372,393.20 and to acquire up to 35,266,453 of the company's own shares. The mandate was not restricted to defined purposes, as recommended by the Code, and is valid until the next Annual General Meeting. None of the mentioned authorizations were exercised during the authorization period.

4 Equal Treatment of Shareholders and Close Associates
Norse Energy has one class of shares representing one vote at the Annual General Meeting (AGM). The Articles of Association contains no restriction regarding the rights to vote. Board members, management and close associates must clear transactions prior to purchase of shares in the company.

As mentioned in chapter 3, the 2008 General Meeting gave the Board authority to increase the company's share capital. According to the resolution, the existing shareholder's preferential rights to subscription of shares will be set aside.

5 Freely Negotiable Shares
The Norse Energy Corp. ASA share is listed on The Oslo Stock Exchange. There are no restrictions on negotiability in Norse Energy's Articles of Association. Hence Norse Energy's shares are freely negotiable, and thus no restrictions on buying or selling the shares in Norway, others than those required by Norwegian legislation.

6 General Meetings
The Annual General Meeting is the company's highest body. Norse Energy's Articles of Association and The Norwegian Public Limited Liability companies Act stipulate the role and mandate of the AGM.

Norse 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 two weeks prior to the meeting to all shareholders in the company. The invitation is also distributed as a stock exchange notification and posted on the company's web site prior to the meeting. Present at the AGM is the Chairman of the Board and the CEO. After the meeting the Minutes are released on our website www.norseenergy.com. Shareholders who are unable to attend in person are encouraged to participate by Power of Attorney. Dividend, remuneration to the Board and the election of the Auditor, will be decided at the AGM. Separate directions for a calling notice for the AGM have been established.

7 Nomination Committee
Norse Energy has for the time being no Nomination Committee. Due to the structure of the company, the company has not found a need to establish an independent nomination committee. The Board will appoint a nomination committee as a sub-committee of the Board on an ad hoc basis if required.

8 Board of Directors: Composition and Independence
The composition of the Board of Directors ensures that the Board can represent the common interests of all shareholders. Norse Energy's Board of Directors has five members; two females and three males as required in Norway.

The Chairman of the Board was unanimously elected by the Board members after the resignation of the former Chairman in 2007. The company has not experienced a need for a permanent deputy Chairman. If the Chairman cannot participate in the BOD meetings, the Board will elect a deputy Chairman on an ad-hoc basis. The Board has established a Compensation Committee and an Audit Committee.

The company's website and annual report provides detailed information about the Board members expertise and capacities.

The Board is aware of the need for diversification of its members, in order to add value and to best serve the common interests of Norse Energy and its shareholders (particularly with respect to expertise, experience, social skills, and independence, flexibility and time capacity).

The Board needs to be able to work as a forum in the best interest of Norse Energy and its shareholders.

The Board has an Audit Committee, comprising Petter Mannsverk Andresen and Lise Heien Langaard. Furthermore the Board has appointed a Compensation Committee, comprising of Bjarte Bruheim and Jon-Aksel Torgersen. The members are independent of the executive management.

9 The Work of the Board of Directors
The Board has ensured that the activities in Norse Energy are soundly organized. This includes drawing up plans and budgets for the activities of the company, keeping itself informed of the company's financial position and ensuring that its activities, accounts and asset management are subject to adequate control.

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

The Board of Directors have 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 CEO is responsible for the company's daily operations and ensuring that all necessary information is presented to the Board. 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.

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 Norse Energy business idea and vision and applicable laws and regulations, are the BOD's responsibilities and the essence of our work. Hence we must focus on ensuring proper financial and internal control, including risk control systems.

The Board approves the company's strategy and level of acceptable risk which is documented in the guiding tool "Financial Risk Management".

The company's primary products, crude oil and natural gas, are exposed to continuous price fluctuations. Furthermore, the development of oil and gas fields in which the company is involved is associated with significant technical risk. Such operations might occasionally lead to cost overruns and production disruptions, as well as delays compared with the plans laid out by the operators of these fields. To mitigate such financial risks, the company has entered into several financial derivative transactions such as hedging of natural gas production, purchase of currency swaps (partially with fixed interest) and purchase of oil put options.

For further details on the use of financial instruments, refer to note 10 in the consolidated financial statements and the company's guiding tool "Financial Risk Management" described in note 20 in the consolidated financial statements.

11 Remuneration of the Board of Directors
The remuneration of the Board of Directors will be decided at the AGM each year. The Board members currently receive remuneration for their work according to the following rates per year:

Board chair: NOK 350,000
Board member: NOK 300,000

12 Remuneration of Executives
Norse Energy has appointed a Compensation Committee which meets regularly. The objective of the committee is to determine the compensation structure and levels of the company's CEO.

Wages to and other remuneration of other members of management shall be decided by the administration. The principles of remuneration shall be based on relevant directions approved by the Board. Remuneration to the CEO shall be at market terms and decided by the Board and made official at the AGM every year. Awarded options must be approved at the AGM.

The Annual Report shall state the management's regular wages, payment in kind, bonus schemes, option agreements, pension schemes and redundancy pay.

Detailed information about options and remuneration for executives and Board members is provided in the Annual Report and on the company's web site as well as notifications to the Oslo Stock Exchange.

13 Information and Communication
Norse Energy's information policy is based on transparency and on providing the shareholders, investors and financial market with correct and timely information, in a way that safeguards the principle of equal treatment of all shareholders, and satisfies the regulations and practice applicable to listed companies. Norse Energy's key communication objectives are visibility, transparency and openness, and the company will achieve these objectives through precise, relevant, timely and consistent information. Norse Energy co-ordinates its external and internal communication activities to ensure that the company is presented in a clear and consistent manner, and that the company's brand and reputation is managed properly. All sensitive information will be controlled and disclosed in compliance with statutory laws and the relevant stock exchange rules and regulations. Primary insiders can trade in the company's shares eight weeks after the quarterly results are published.

Norse Energy gives four Quarterly presentations a year to shareholders, potential investors and analysts, in addition to presentations at conferences in and out of Norway.

- Norse Energy's website, www.NorseEnergy.com contains comprehensive information regarding the company, its activity and contact information, and is updated on a regular basis. In addition all presentation materials are available on the website.

- Norse Energy distributes all sensitive press releases as well as all reports through Cision and Oslo Stock Exchange.

- Norse Energy publishes an annual financial calendar which can be consulted on the Oslo Stock Exchange website, through news agencies and on the company's website.

14 Takeovers
As of today the Board of Directors does not hold any authorizations as set forth in Section 4–17 of the Securities Trading Act, to effectuate defence measures of a takeover bid if launched on Norse Energy Corp. ASA.

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 for a takeover bid.

15 Auditor
Deloitte AS was appointed as auditors last year.

Norse Energy has appointed an Audit Committee, 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, including the quarterly and annual financial statements.

The Auditor 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. This is an important tool for the Board in order to get a better overview and fulfil the control duties. The Auditor is also present in at least one Board meeting each year.

In addition, the Board should receive an annual written confirmation from the Auditor stating that the Auditor continues to satisfy the requirements for independence. The Auditor should provide the Board with a summary of all services that have been undertaken for the company, in addition to the audit work.

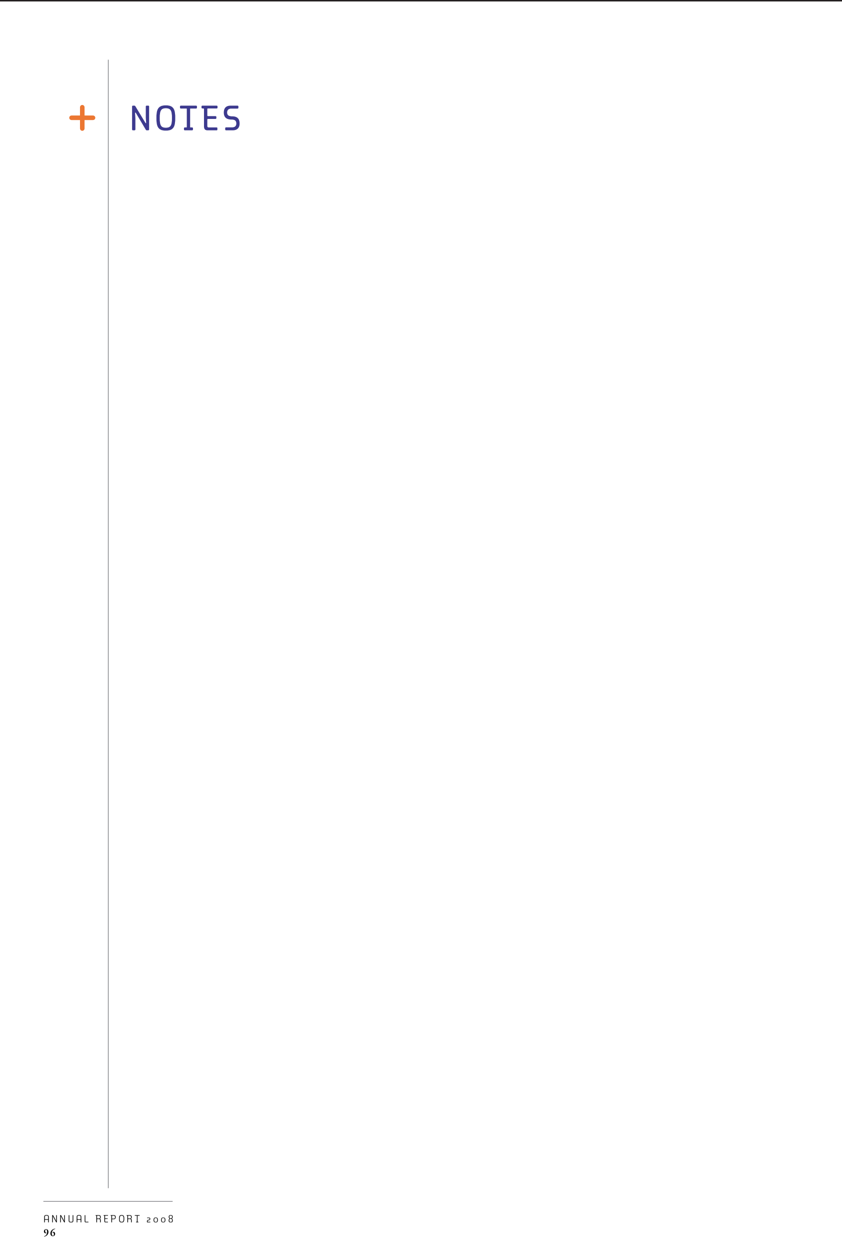
DEFINITIONS

Glossary and definitions

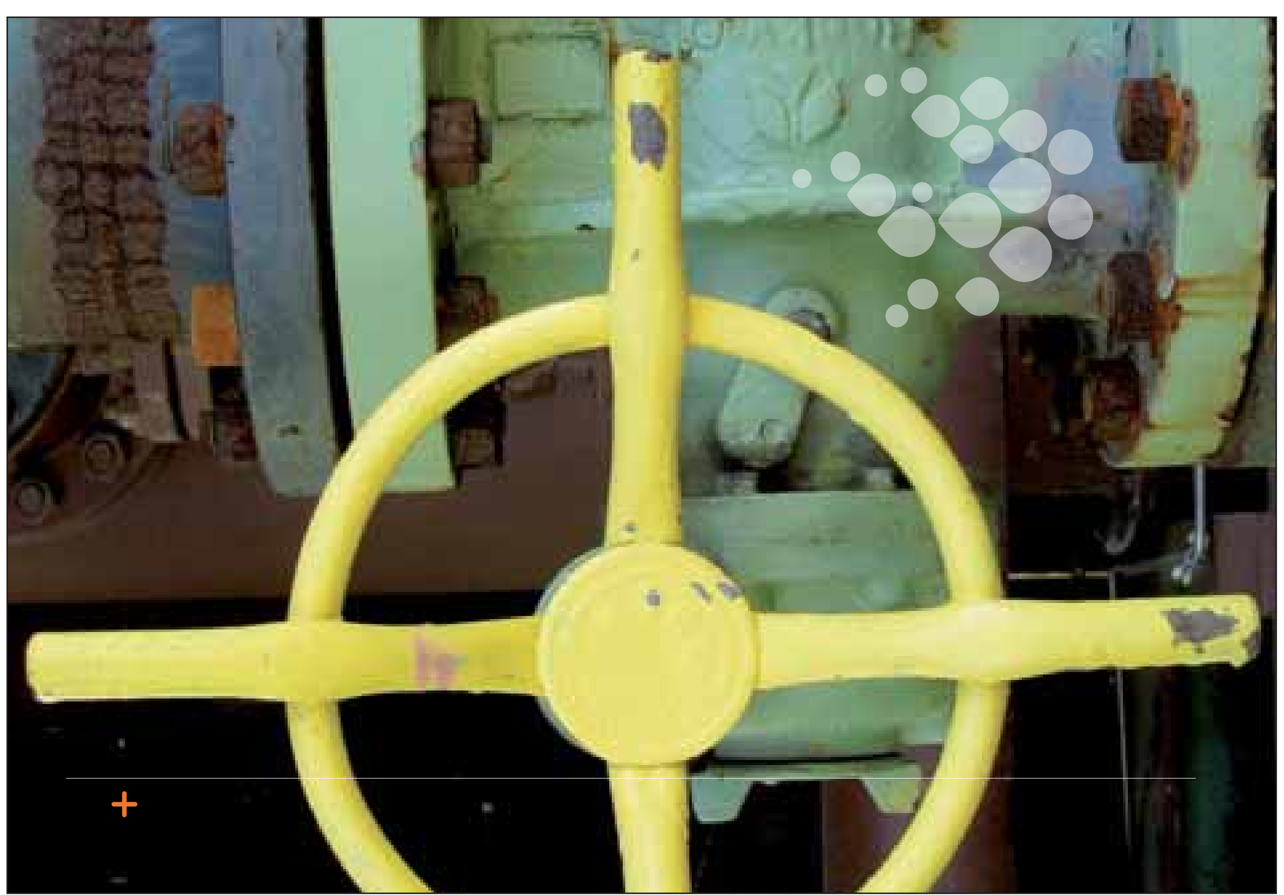
Bbl	One barrel of oil, equal to 42 US gallons or 159 liters
Bcf	Billion cubic feet
Bm³	Billion cubic meters
BOE	Barrel of oil equivalent
Btu	British Thermal Units, the energy content needed to heat one pint of water by one degree Fahrenheit
Dth	Decatherm, the approximate energy equivalent of burning 100 cubic feet of natural gas
IP	Initial production
Mcf	Thousand cubic feet
MMcf	Million cubic feet
MMBOE	Million barrels of oil equivalents
MMBtu	Million British thermal units
MMm³	Million cubic meters
Tcf	Trillion cubic feet

Conversion factors

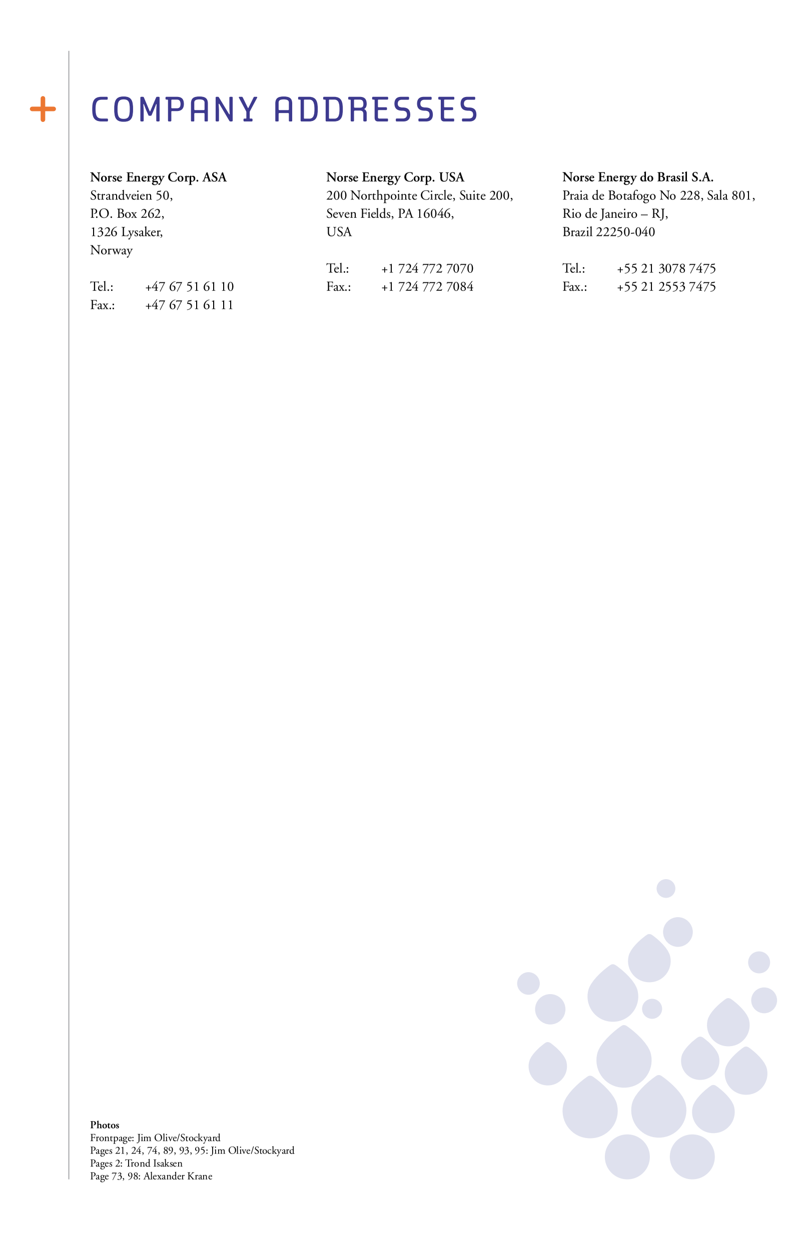
Natural gas and LNG	To billion cubic metres NG	billion cubic feet NG	million tonnes oil equivalent	million tonnes LNG	trillion British thermal units	million barrels oil equivalent
From			**Multiply by**			
1 billion cubic metres NG	1.00	35.30	0.90	0.73	36.00	6.29
1 billion cubic feet NG	0.028	1.00	0.026	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



NOTES



NOTES



COMPANY ADDRESSES

Norse Energy Corp. ASA
Strandveien 50,
P.O. Box 262,
1326 Lysaker,
Norway

Tel.: +47 67 51 61 10
Fax.: +47 67 51 61 11

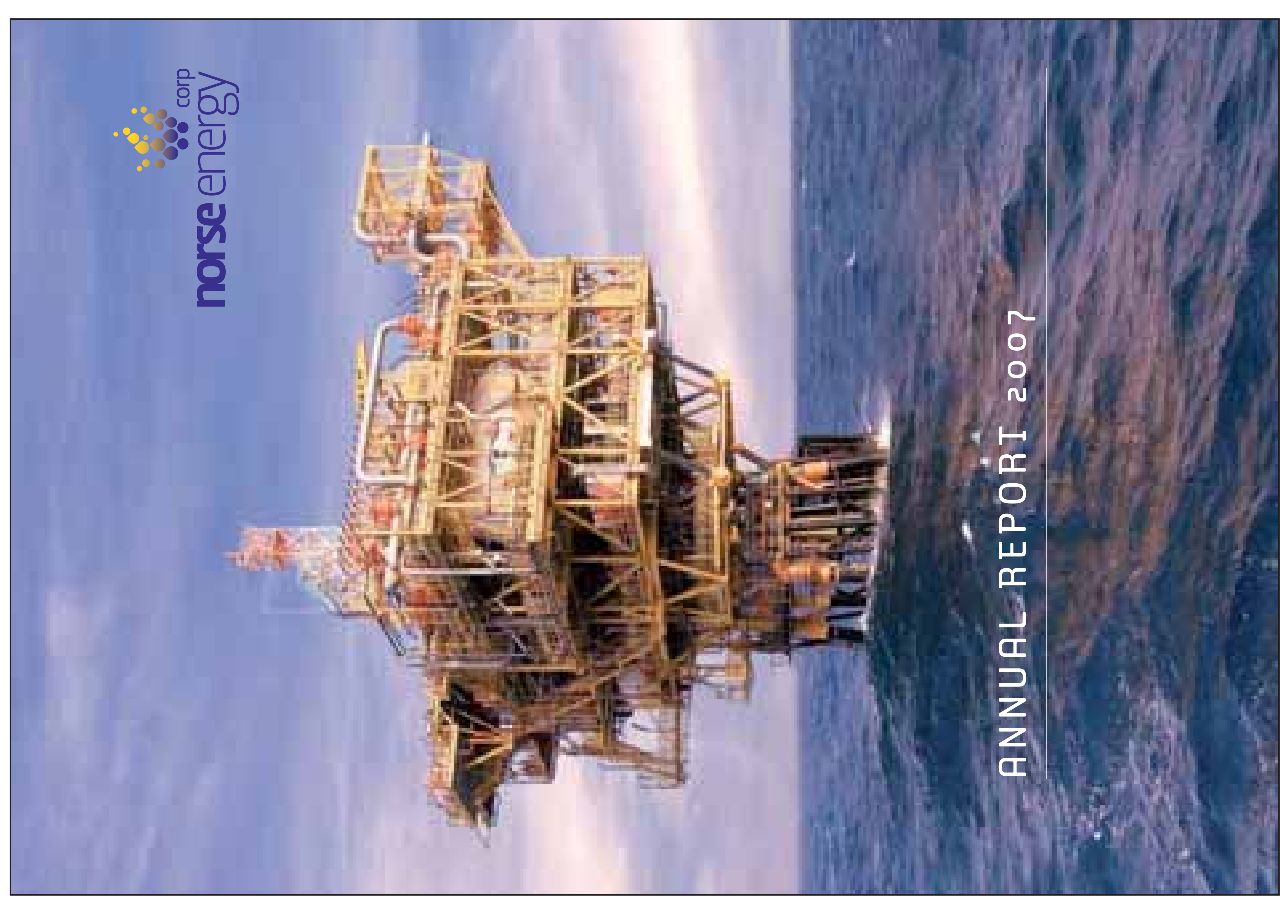
Norse Energy Corp. USA
200 Northpointe Circle, Suite 200,
Seven Fields, PA 16046,
USA

Tel.: +1 724 772 7070
Fax.: +1 724 772 7084

Norse Energy do Brasil S.A.
Praia de Botafogo No 228, Sala 801,
Rio de Janeiro – RJ,
Brazil 22250-040

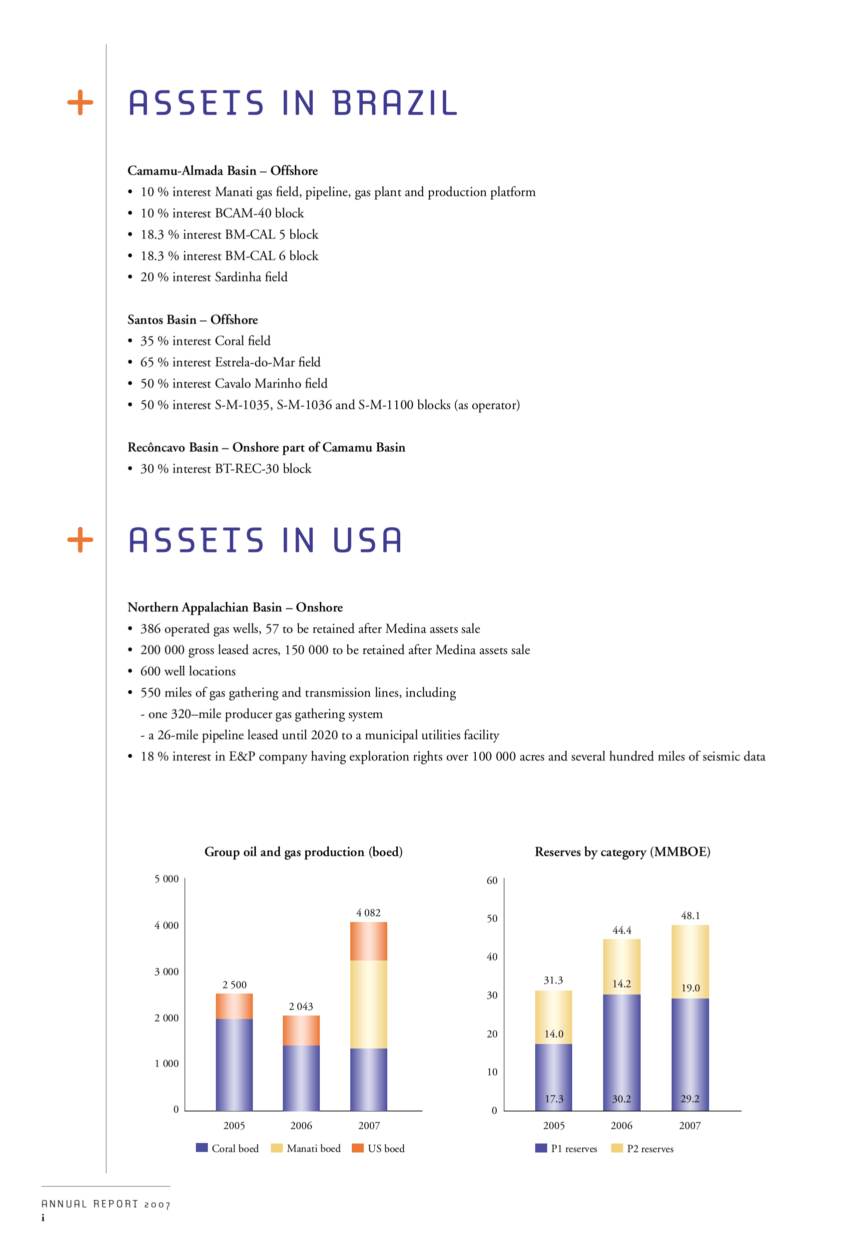
Tel.: +55 21 3078 7475
Fax.: +55 21 2553 7475

Photos
Frontpage: Jim Olive/Stockyard
Pages 21, 24, 74, 89, 93, 95: Jim Olive/Stockyard
Pages 2: Trond Isaksen
Page 73, 98: Alexander Krane



CONTENTS

Assets	i
Company Overview	ii
Highlights and Key Figures	1
President's Letter	2
Company Operations	4
Brazil Operations	4
USA Operations	7
Reserves and Contingent Resources	10
Directors' Report 2007	12
Board of Directors	18
Consolidated Financial Statements	19
Consolidated Income Statement	19
Consolidated Balance Sheet	20
Consolidated Statement of Changes in Equity	22
Consolidated Statement of Cash Flow	23
Notes to Consolidated Financial Statements	24
Parent Company Financial Statements	69
Parent Company Income Statement	69
Parent Company Balance Sheet	70
Parent Company Statement of Cash Flow	72
Notes to Parent Company Financial Statements	73
Auditor's Report	85
Statement on Corporate Governance in Norse Energy Corp. ASA	86
Definitions	90
Company Addresses	95



ASSETS IN BRAZIL

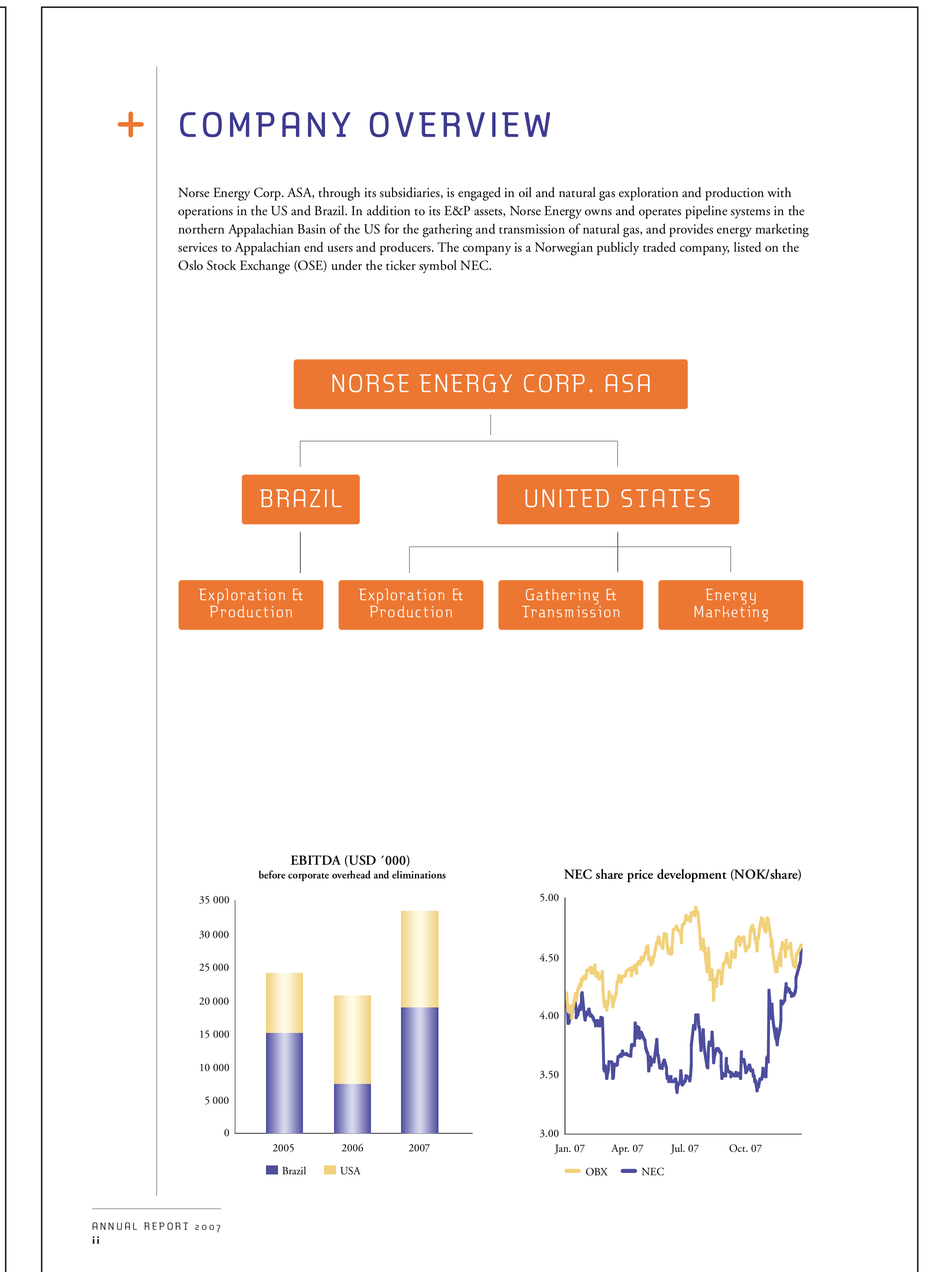
Camamu-Almada Basin – Offshore
- 10 % interest Manati gas field, pipeline, gas plant and production platform
- 10 % interest BCAM-40 block
- 18.3 % interest BM-CAL 5 block
- 18.3 % interest BM-CAL 6 block
- 20 % interest Sardinha field

Santos Basin – Offshore
- 35 % interest Coral field
- 65 % interest Estrela-do-Mar field
- 50 % interest Cavalo Marinho field
- 50 % interest S-M-1035, S-M-1036 and S-M-1100 blocks (as operator)

Recôncavo Basin – Onshore part of Camamu Basin
- 30 % interest BT-REC-30 block

ASSETS IN USA

Northern Appalachian Basin – Onshore
- 386 operated gas wells, 57 to be retained after Medina assets sale
- 200 000 gross leased acres, 150 000 to be retained after Medina assets sale
- 600 well locations
- 550 miles of gas gathering and transmission lines, including
  - one 320–mile producer gas gathering system
  - a 26-mile pipeline leased until 2020 to a municipal utilities facility
- 18 % interest in E&P company having exploration rights over 100 000 acres and several hundred miles of seismic data



COMPANY OVERVIEW

Norse Energy Corp. ASA, through its subsidiaries, is engaged in oil and natural gas exploration and production with operations in the US and Brazil. In addition to its E&P assets, Norse Energy owns and operates pipeline systems in the northern Appalachian Basin of the US for the gathering and transmission of natural gas, and provides energy marketing services to Appalachian end users and producers. The company is a Norwegian publicly traded company, listed on the Oslo Stock Exchange (OSE) under the ticker symbol NEC.

2007 HIGHLIGHTS

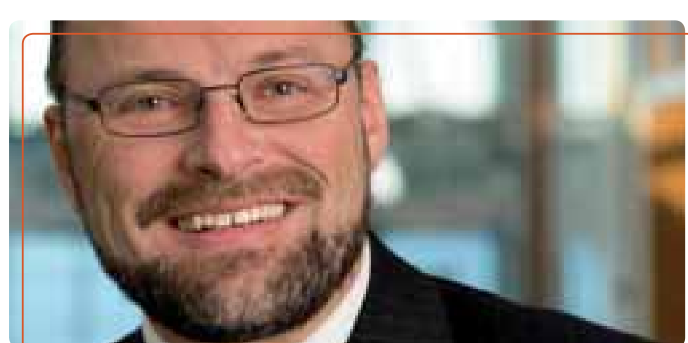
4082 BOE/day	Average production – a new record
48.12 MMBOE	2P reserves – a new record
39.26 MMBOE	Contingent resources – a 222 % increase
USD 27 million	EBITDA – a record high
NOK 4.56	Stock price at year end – a 10 % increase
6 of 6	Manati gas wells completed, tied-in, and producing
1st time	Offshore operator of three new exploration blocks in Santos Basin
100%	Completion success rate of wells drilled in the US
USD 67 million	Sale price of US Medina field assets
NOK 200 million	Issued in unsecured bond loans

KEY FIGURES

	2007		2006
Revenues (USD million)	214.7	↑	186.7
EBITDA (USD million)	26.8	↑	15.9
EBIT (USD million)	-28.2	↓	0.7

	2007		2006
2P Reserves (MBOE)	48.12	↑	44.44
Production (BOE/day)	4 082	↑	2 043
Stock Price per 12/31(NOK)	4.56	↑	4.13

PRESIDENT´S LETTER



Dear Shareholders:
In my opening remarks during our first Annual Meeting in 2005, I asked you to be patient because for the first three to five years we intend to focus not on our quarterly financial numbers, but rather on building our asset base in, what I believe, are two of the best areas in the world to do so, Brazil and the Appalachian Basin of the US.

In the third year of operation since our merger we have, nonetheless, provided record average production of 4 082 BOE per day, increased our 2P reserves to 48.12 MMBOE and improved EBITDA 70 % over last year to USD 26.8 million. Our stock price has climbed each of the last three years from NOK 2.65 per share to NOK 4.56 at the end of 2007, representing a 10 % increase in 2007 and 72 % increase since 2005. All the while we were assembling an international energy company.

Our financial statements continue to be affected by non-cash items. This year the impairment of the Coral field and our outstanding warrants are among the most significant of those.

What I believe we will remember most from 2007 is the fine tuning we gave our business model. We are now mostly a natural gas company, concentrating on the development of our higher-impact gas assets. In 2008, only a small portion of our production will come from the assets we began with three years ago.

- In Appalachia, we signed an agreement to sell all our lower-impact Medina gas wells for USD 67 million, realizing a good profit for the company, and are now concentrating our activities on the more attractive gas plays of the basin.
- In Brazil, our 10 % interest in Manati, Brazil's largest non-associated gas producing field, represents about 1 % of all natural gas consumed in the country. The off take is secured through a long-term contract with Petrobras.

In total we invested USD 53 million during 2007 in exploration and production activities.

Over 14 years of operations in the Appalachian Basin we have assembled significant resources – a strong land position, geological and engineering expertise, and a team of well-trained, experienced operating personnel. The sale of the Medina properties gives us the opportunity to apply these valuable resources towards the exploratory drilling and development of higher-impact assets in northern Appalachia. Our US business plan is financed through equity received from the divestiture combined with local reserve-based lending facilities as we aggressively build reserves.

Appalachia has recaptured the attention of the investment community with the dramatic production results from the Marcellus shale, a play very similar to the more famous Barnett shale in Texas. The potential of the under-explored formations of Appalachia seems to be huge, and our business plan in 2008 will highlight other formations in addition to the Marcellus. The majority of our drilling is scheduled to be horizontal in the fractured Herkimer formation below the Marcellus shale. Also planned are vertical exploration wells to deeper formations such as the Theresa sandstone and Utica shale.

We remain intently focused on our land leasing and seismic efforts, but are increasingly faced with experienced and re-

sourceful competition. This has resulted in significant increases in land leasing cost. Our current holdings of approximately 165 000 acres in the areas of interest have a potential sizeable value to the company.

To further facilitate the successful execution of this new plan, our pipeline division will also refocus to provide timely infrastructure for our drilling programs which, if successful, will require substantial production facilities. I am also excited about our gas marketing division which has created opportunities generated from E&P's new business plan.

In Brazil, our production profile has shifted from oil in the Coral field of the Santos Basin to long-lived gas production from the Manati field in the Camamu-Almada Basin. As the Coral field has reached the end of its commercial life under the current development plan, the decision was made to write off the remaining book value which resulted in a significant non-cash negative effect to our financials. On the other hand, the strategy behind our participation in the Manati field proved to be most successful as all six wells of the drilling program were put into production during 2007. Manati is solely a natural gas field and is not associated with the production of crude oil. It is the largest such field producing in Brazil today.

Our exploration program in Brazil got under way with the drilling of the first well in the BCAM-40 block, the Gengibre prospect. The well discovered relatively large volumes of light oil in three hydrocarbon bearing zones, but despite nice porosity, lacks desired permeability. The well is currently kicked to try to find the primary target zone more productive somewhat higher on the structure. In April 2008, we received the environmental licenses to drill our BM-CAL 5 and 6 prospects. This has generated excitement in Brazil because if the results are successful, the impact to our company will be substantial.

In the Santos Basin, our BS-3 block, with the proven non-developed fields Estrela-do-Mar and Cavalo Marinho, is a significant asset for the company. The integrated plan which includes producing the associated gas through a pipeline to shore was filed with the National Petroleum Agency in late 2007. We are currently awaiting results from the delineation drilling by Petrobras in the neighboring Caravela field. If this is successful we anticipate movement into the next phase. The recent announcement of world-class sub-salt discoveries has certainly put Brazil and the Santos Basin on the world energy's radar screen.

I am proud that our Brazilian organization has in the short timeframe of three years become strong enough to be awarded an offshore operator's license. The company will serve as operator of the three blocks in the Santos Basin acquired during the 9th licensing round - clearly a milestone for the company. I would also like to welcome our new CEO in Brazil, Kjetil Solbrække, who I am confident will further both our organizational structure and develop our existing asset base, as well as to help define the longer term growth strategy for Brazil.

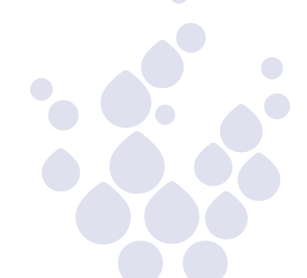
Brazil's economy is in a boom. Today it imports more than 50 % of its gas consumption from Bolivia, and as the tenth largest energy consumer in the world, is feeling the economical impact of relying upon imports. New gas legislation is before the Brazilian Congress for approval. In this environment, where competition has only recently awaken, we feel our company with its historical presence and expanded management and technical staff is well positioned to take advantage of the vast opportunities Brazil has to offer.

As we maintain a steady operational focus in both Brazil and the US Appalachian Basin, I will make one of my priorities for 2008 the evaluation of various corporate structures to optimize our efforts. As we execute on the opportunities in Brazil, and if the US business plan proves to be successful, there could be many options for how we can enhance our shareholder value in Norse Energy.

We have interesting times ahead of us. Thank you for your interest in Norse Energy.

Sincerely,

Øivind Risberg



COMPANY OPERATIONS

BRAZIL OPERATIONS

In Brazil, 2007 was highlighted by the successful operations in the Manati gas field in the Camamu-Almada Basin. The production potential and processing capabilities of the field were verified as all six wells were completed and brought on-line at scheduled production.

Additionally, we began the company's first exploratory offshore well, Gengibre, in the BCAM-40 block. By the first quarter of 2008, the well had reached its total depth. Logging revealed three potential hydrocarbon producing zones.

In the BS-3 in the Santos Basin, oil production from the Coral field declined sufficiently to lead our third-party certification agents to reclassify the reserves to contingent resources. As such, the company decided to write off its remaining book value in the field. Together with our partners, we continued to evaluate plans for the development of the Estrela do Mar and Cavalo Marinho fields.

Another milestone took place in the fourth quarter when we were awarded Norse Energy's first license as an offshore operator. We will be the operator of three offshore blocks in the Santos Basin acquired during the 9th Bid Round in 2007.

Brazilian basins where Norse Energy has assets

Manati (10 % interest) – *Largest non-associated gas producing field in Brazil*

Norse Energy's participation in the Manati gas field was one of our success stories for 2007. By the end of the year, the six wells planned for the development of the field had been drilled, completed and tied-in to the production facilities. A total of over 1 250 meters of net pay was revealed from the six wells, averaging 209 meters per well, significantly above forecasted average thickness. The company's share of the 2P reserves from the field, as stated by the independent appraisal firm of Gaffney Cline and Associates, is 17.07 MMBOE, up 8 % from prior estimates. Early in 2008, the field reached a flow rate of 3 800 BOE/day. Total production for the first year as the wells were brought on-line was 2 035 BOE/day (net to Norse Energy's interest).

The Manati field, located in Block BCAM-40 in shallow waters of the Camamu-Almada Basin offshore the Bahia state, is a paleogeomorphic fault block with the principal reservoir being the Tithhonian Sergi Formation, featuring excellent porosity and permeability.

The company's 10 % interest in the Petrobras-operated BCAM-40 exploration concession includes the Manati production concession enclave. The installations include a remotely controlled, fixed-manifold platform tying in the six wells' individual flow lines and control systems to test individual well flow capacities (pictured on cover). A 125-kilometer pipeline from the production unit offshore to the gas processing plant located onshore near São Francisco in Bahia removes liquids associated with the gas production.

The first two of the six wells were tied-in and producing by mid January 2007 and the third well was online by the end of March. The flow lines for all the Manati wells were installed before the initiation of drilling activities. A change in seafloor conditions required a shift in the location of wells #5 and #6, by as much as 80 meters in well #5. The production lines had to be pulled into the new Christmas tree locations which delayed scheduled hook-up. Well #5 was tied-in in July. Well #4 failed pressure testing after installation in July. Work on wells #4 and #6 was delayed due to bad weather and limited availability of a suitable diving support vessel. The delays triggered the expiration of the environmental licenses. The licenses were re-obtained but the resulting pushback of the hook-up schedule impacted the production projections for the year. Well #6 was tied-in in November, followed by well #4, which was brought on line December 27, 2007.

The original development plan for the field was for seven wells. The decision to drill well #7 has been postponed pending recovery development from the existing wells.

Sardinha Field (20 % interest) – *Studies being conducted*

The Sardinha Field is located in the Camamu-Almada Basin, 50 kilometers south of the Manati gas field. Prior to the company's purchase of its 20 % interest, the field had been defined by 11 exploration wells supported with 2D and 3D seismic. Throughout the year, economic feasibilities studies were conducted by the operator to analyze optimal development of the field. Proposals discussed between the partners included the production of both the large oil accumulation and another for gas-only production. Currently, the field is being considered for integration with the existing discoveries in the third-party operated BM-CAL-4 and BCAM-40 areas.

Exploration Blocks of the Camamu-Almada Basin – *Logs of first exploration well reveal multiple hydrocarbon bearing zones*

Throughout 2006 and 2007, the company and its partners in the offshore blocks of the Camamu-Almada Basin developed and analyzed various prospects for exploratory drilling.

BCAM-40 (10 % interest)
Multiple prospects have been approved by the partnership for drilling in the BCAM-40 block, which includes the Manati gas field and more than 530 square kilometers (130 000 acres) under exploration covering shallow and deep water areas.

In August 2007, the consortium received the environmental license for the Gengibre well, the first of four exploration wells planned for the BCAM-40 block. Drilling was begun in September and the well reached its total depth at 3,357 meters in early January 2008. As in the Manati field, the well was targeted for the Sergi sandstone reservoirs. The well penetrated the Sergi and two other zones, all encountering light oil with permeability concerns. There are three additional prospects approved by the partners to be drilled in this license.

The BCAM-40 license also includes the block's oil and gas discovery well, the #1-BAS-131. Due to environmental issues associated with oil production in the area, conceptual studies are being developed for a gas-only production solution. Final development decisions are pending unitization with the adjacent block.

BM-CAL 5 and 6 (18.3 % interest)
The BM-CAL 5 and 6 blocks lie offshore the Bahia state south of BCAM-40 in waters ranging from 360 to 1400 meters. Four prospects have been mapped in these two blocks and approved to be drilled; Copaíba and Jequitibá in BM-CAL-5 block; Peroba and Marfim in BM-CAL-6 block. Marfim drilling is contingent on the results of Peroba.

During 2007, Petrobras, the operator, refined the geological maps of Copaíba, Jequitibá and Peroba, already approved in

the previous year, and prepared and submitted the Marfim prospect to the partners for approval. Petrobras also conducted additional studies required by IBAMA, the Brazilian government's environmental agency, for the environmental licensing of the drilling activities.

The Norse Energy G&G team has performed technical studies to assess and re-analyze the exploration potential of the four prospects. The database used for these studies encompassed seismic and well data and regional petroleum system studies, as well as all previous evaluation studies and internal reports. The final product of this work was a comprehensive report including interpreted seismic sections, structural maps, recoverable volume calculations, economic assessments and risk analysis.

The shallow waters of the Camamu-Almada Basin are considered by IBAMA as a sensitive environmental area, due to its proximity to beaches and rivers. Only 3 of the prospects in the BCAM-40 and none of the prospects in BM-CAL 5 and 6 are considered to be in shallow waters. Careful attention was given to licensing requirements as the operator developed sophisticated technical models for oil leakage and cleaning response, as well as strict environmental monitoring for the area. Environmental licenses for BM-CAL 5 and 6 were granted in April 2008.

Santos Basin – *Focus shifts to Cavalo Marinho, Estrela-do-Mar and three new blocks acquired in 9th bid round; production life of Coral expires*

Cavalo Marinho (50 % interest) and the BS-3 integrated project
The Cavalo Marinho field (originally licensed as BS-3, or Caravela Sul), currently represents 12.02 MMBOE of the company's 2P reserves. The field is located 20 kilometers southwest of the Petrobras owned Caravela field. During 2007, Norse Energy and Petrobras developed plans to integrate the fields for joint development. In October the operator submitted the two-field development plan to the ANP (National Agency of Petroleum). The plan includes the drilling of two horizontal wells in Cavalo Marinho and three vertical wells in Caravela. Approval of the plan is pending. Both fields will share an FPSO unit, offshore-to-onshore pipeline and an onshore gas processing plant. Plan implementation will be influenced by the reservoir data collected from a delineation well drilled by Petrobras in the adjacent Caravela field.

Estrela-do-Mar (65 % interest)
The Estrela-do-Mar field, also in Block BS-3, has 5.66 MMBOE 2P certified reserves. The field is a north-south oriented anticline, bounded to the west by faulting in water depths of around 150 meters. Petrobras, the operator, has drilled a total of four exploration wells to delineate the field, and has proven oil in reservoir zones B1 and B2. As is the general trend in the area, the B1 reservoir zone showed poor reservoir quality, leaving the B2 zone as the main target for development. During 2007, the company, along with the operator, discussed various new development plans for the field, and a new development plan was filed with ANP towards the end of the year.

Coral (35 % interest)
The Coral field, in Block BS-3, is one of the first fields to be developed in the Santos Basin. The field has been in production since 2003. Commercial productivity of the Coral field was projected to terminate in early 2008. After an impairment assessment during the fourth quarter of 2007, the company decided to write off the remainder of the book value for the field based on certified reserves estimates (2P from GC&A of 0.12 MMBOE.

The Coral #4 and #5 wells produced throughout the year. Workovers were performed on both wells in an attempt to stimulate production from the field's final commercial zone, the B2B. Successful workovers early in the year led to a production increase mid-year. The combination of higher oil flow rate and the high Brent price of oil were beneficial to the project. The two remaining wells are anticipated to phase out during 2008.

S-M 1035, S-M 1036 and S-M 1100 (50 % interest)
The company was the successful bidder on three offshore blocks in the Santos Basin in the 9th Bid Round offered by the ANP. Norse Energy will be the operator of the blocks – its first license as an offshore operator.

The blocks are located adjacent to each other, about 100 kilometers northeast of the Cavalo Marinho field, in about 200 meters of water depth, and cover an area of approximately 510 square kilometers.

The financial commitment is USD 12 million, of which about USD 5 million is related to work commitment. The license is held for three years, and we are currently pursuing ships for 3D seismic shooting.

Recôncavo Basin (30 % interest) – *First well unsuccessful*

Norse energy owns an interest in two onshore blocks in the Recôncavo Basin, historically one of the most prolific onshore basins in Brazil. During 2007, the operator acquired 3D seismic data as well as a surface organic geochemistry survey over the block. The seismic data were processed and interpreted for geological and geophysical studies, identifying two prospects to be drilled. The first one, the Jatobá, in Block BT-REC-22 was drilled and concluded to be dry, with no commercially interesting hydrocarbon shows. The other block, BT-REC-30, is under evaluation by the partners.

USA OPERATIONS

During 2007, the company made the strategic decision to shift focus from the shallow Medina gas wells of northern Appalachia to potentially higher-impact gas plays. We continued an active drilling and production program to bring value to the Medina assets. By year end, we had entered into an agreement to sell those properties for USD 67 million. Heightened exploration activities and leasing programs, coupled with the acquisition of a small E&P company and a new joint venture, kept the E&P division highly engaged. Our transportation and marketing divisions continued to add value to the company's bottom line.

Exploration & Production Division – *Concentration on higher-impact drilling of northern Appalachia; profitable sale of Medina properties*

For the past 12 years, Norse Energy has concentrated its exploration and production activities in the Northern Appalachian Basin. Our 2007 drilling program was a two-fold focus on development wells in the Medina gas formations located around Jamestown, New York and exploration and development wells in New York state. A total of 36 wells were drilled during 2007, with a 100 % completion success rate. At year end, the company was operating 386 gas wells and participating as a non-operator, working-interest partner in another 30 wells in the area. During 2008, the company has drilled or started another nine wells, seven horizontal and two vertical wells. Approximately 180 miles of company-owned production pipelines associated with the wells deliver produced gas to points of sale.

Average daily gas production in 2007 was 850 BOE/d, up 26% from 2006. 2P reserves, as stated by Schlumberger Technology Corporation, increased to 13.26 MMBOE, up 18 % over 2006. Additionally, Schlumberger has stated the US Contingent Resources to be 32.59 MMBOE (of which none was reflected in last year's report), to reflect the potential associated with our shift in focus to the higher impact plays of northern Appalachia. The successful results of the company's horizontal wells, though with limited production history, have verified our position that horizontal drilling in the central New York area can increase production and reserves at a rate substantially greater than previously experienced from the Medina formations.

The targeted formations in the company's revised exploration strategy are the Herkimer sandstone and the other shale reservoirs, Oneida/Oswego sandstone, Utica shale, Black River dolomite, Theresa sandstone, and Marcellus shale. An aggressive leasing program targeting these formations added 88 000 gross acres to the company's land portfolio during 2007, bringing the total acres under lease to approximately 200 000 including the Medina field assets of approximately 50 000 acres. The company added additional acreage in the first quarter 2008.

Our exploration department shot 295 miles of 2D seismic and notable 3D seismic during the year. In 2008, we are proceeding with an active proprietary seismic shooting program.

The company invested about USD 29 million on exploration and production during 2007. During the first quarter of 2007, we completed the acquisition and subsequent sale of assets of a small E&P company, Vandermark Exploration, Inc., operating in New York State. The sale resulted in the company acquiring an ownership position in the purchaser, Somerset Production Company. Later in the year, we also invested in a joint venture with Somerset (increasing our ownership position further) to develop their existing properties targeting exploratory drilling in the deeper formations of interest to the company. Norse Energy is serving as the contract operator for the drilling operation. In the Vandermark purchase, the company also acquired a small storage field and associated pipelines that were retained.

On August 28, 2007, the company announced the potential sale of the producing properties in the Medina field near Jamestown, New York. A data room was opened in late September for prospective buyers. The company experienced good interest throughout the process and received multiple bids. On November 5, 2007, we accepted the highest bid offered from EnerVest Ltd. for USD 67 million, subject to final due diligence. Closing of the transaction occurred in March 2008.

The company also holds working, royalty and overriding royalty interests in various oil and gas leases in the Mid-Continent region of the US, primarily in Oklahoma. The company does not serve as operator of any wells on these properties.

Gathering and Transportation – *Throughput remains steady*

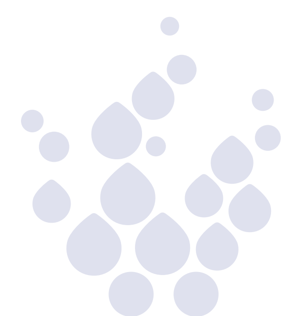
The G&T division oversees approximately 525 miles of company-owned natural gas pipelines located in western and central New York and northwestern Pennsylvania. One system of approximately 320 miles, known as the Norse Pipeline system, gathers gas from third-party customers, as well as company-owned wells, and delivers it to several distribution points for sale. The delivery points include major interstate pipelines, local distribution companies and end users. Annual throughput on this system has steadily increased since it was bought from Columbia Gas Transmission in 1999. The average daily throughput on the system during 2007 was 18 764 MMBtu, up 7.4 % from 2006. Towards the end of the year, throughput was impacted when a significant customer left the system. Total sales for the system during the year were USD 6.6 million.

Another system is a 26-mile natural gas transmission line located in western New York with connections to a major interstate pipeline and the company's pipeline system. The line is currently leased to the City of Jamestown, New York Board of Public Utilities to provide gas supply to its power generation facility for an initial term of 20 years, expiring in 2020.

The company owns approximately 180 miles of production lines tying individual wells to sales points. Adequate infrastructure for well production has been a primary focus for the company and new lines were designed during 2007 to support the company's drilling activity in the central New York area.

Energy Marketing – *Concentrating on Appalachian gas supply*

The company creates margins by cost effectively aggregating supply from Appalachian producers, marketers and utilities. It transports and balances those supplies and delivers them to targeted markets. Consistent with our ongoing strategy, on a volumetric basis, customers are split roughly 50/50 between larger wholesale customers such as utilities and third-party wholesale marketers and commercial and industrial customers. This creates an effective portfolio, both from a risk and unit margin perspective. The total volume marketed during 2007 was 21 million Dth, compared to 19 million Dth for 2006, a 10 % increase. Total sales were USD 158.2 million, compared to USD 148.3 million for 2006, a 6.7 % increase.



Energetic

RESERVES AND CONTINGENT RESOURCES

The company 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 Society of Petroleum Engineers/World Petroleum Congress (SPE/WPC) as issued in March 2007. Each region (division) has a long-standing relation with its certification agents; Gaffney, Cline & Associates (Brazil) and Schlumberger Technology Corporation (USA).

Norse Energy's 2007 reserve reports are summarized in the table below (net to the company's share):

Norse segment	1P reserves (MMBOE)	2P reserves (MMBOE)	3P reserves (MMBOE)	Contingent Resources (Best estimate) (MMBOE)
USA	**10.31**	**13.26**	**17.69**	**32.59**
Central New York	2.38	3.54	6.58	32.59
Jamestown, New York	7.93	9.72	11.10	-
Brazil	**18.87**	**34.86**	**44.15**	**6.67**
Coral	0.10	0.12	0.15	
Estrela do Mar	0.00	5.66	6.79	
Cavalo Marinho	5.03	12.02	15.48	
Manati	13.74	17.07	21.73	
Norse Totals	**29.18**	**48.12**	**61.84**	**39.26**

The Brazil Contingent Resources are related to various fields.

The grand total of 48.12 MMBOE of 2P reserves represents an increase of 8.3 % compared to last year's certified reserves. The company's 1P reserves of 29.18 MMBOE is a reduction compared to last year's volume of 30.22 MMBOE.

During 2007, the company had the following reserves development:

Reserves Development	2P reserves (MMBOE)
Balance (previous Annual Statement of Reserves, "ASR") as of December 31, 2006	44.44
Production 2007	-1.55
Acquisitions/disposals since previous ASR	-
Extensions and discoveries since previous ASR	-
New developments since previous ASR	5.68
Revisions of previous estimates	-0.45
Balance (current ASR) as December 31, 2007	**48.12**

Notes:
- Figures are consolidated on a corporate level
- Reserves and resources estimates comply with the new definitions set by the 2007 SPE Petroleum Resources Management System (PRMS).

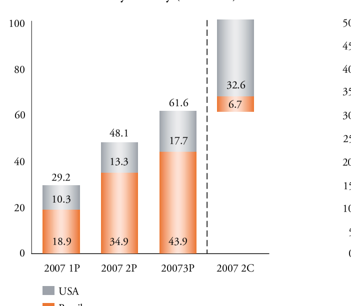
The most significant changes compared to last year's report are mainly attributable to:

Brazil
- New development plan for Cavalo Marinho commercializing gas.
- New development plan for Estrela-do-Mar assuming gas is flared; weak project economics with a new development concept does not allow 1P volumes to be carried.
- Expected abandonment of Coral in 2008, but with a potential future return to recover volumes left – with different technological approach (1.41 MMBOE classified as Contingent Resources).
- Manati reserves are stated with full 6 well development included and shows an increase of 33 % in proved reserves (1P). Stricter SPE definitions have lead Gaffney Cline to consider the Manati gas sales contract volume of minimum 23 Bm3 (~145 MMBOE) as an upper limit to 1P volumes allowed despite estimated recovery volumes from the operator in excess of 30 Bm3 (~190 MMBOE). In their report, Gaffney Cline has only considered the reserves produced under the current Petrobras contract, which has a lower 2P volume than the operator's certification.

USA
- A strategic shift in focus to other than Medina targets provided encouraging results as the first wells drilled were put into production. Our significant resource base has in the company's mind been conservatively estimated by Schlumberger to contain 183 Bcf (~33 MMBOE) by year-end.
- A reclassification of non-Jamestown tight "blanket" sands targets to Contingent Resources due to drilling economics associated with the successful mitigation of basal water bearing underlying sands. Horizontal technology completions are under review for this play.
- 2D and 3D seismic identified extensive structural and fracture opportunities in our core areas of focus.
- The 2007 US figures include the Medina field assets (classified as assets held for sale) that were consolidated through 2007.

These reserves and resources are based on the following assumptions:
- All US numbers from Schlumberger are net to the company's interest after royalties.
- All Brazil numbers are gross before royalties.

Reserves by country (MMBOE)



2007 2P Reserve development (MMBOE)

50
45
40
35
30
25
20
15
10
5
0
44.4
1.5
0.9
2.0
2.4
48.1
End 2006
Production
BS3
Manati
US
End 2007

DIRECTORS' REPORT 2007

"To ensure consistent production flow sustained by replenishing reserves, an E&P company needs productive assets, a well developed business plan, the talent to think creatively, and the ability to effectively execute. We believe Norse Energy has the necessary execution capabilities and financial resources to generate continued growth and success in the years ahead, with the strength and tenacity of a team bound together by a strong commitment to a shared long-range plan."

Norse Energy Corp. ASA ("Norse Energy" or "the company") became a public company only three years ago, as a result of a merger between two separate entities, each with its own history in diverse geographical regions. One company had operations offshore Brazil and was already listed in Norway and the other operated onshore in the northern Appalachian Basin in the US. In 2007, we continued to strengthen our position for future growth in these regions with a focus on both production and exploration, and we further sharpened our focus through strategic acquisitions and a divesture.

Norse Energy was listed on the Oslo Stock Exchange (OSE) on July 13, 2005 under the ticker symbol "NEC." The corporate headquarters are located at Lysaker, near Oslo, and the company also holds corporate offices in Houston and Rio de Janeiro, in addition to several operational offices in the Appalachian basin in the US.

Operational Performance
<u>Brazil Division</u>
With a 10 % ownership in the Manati gas field, the largest non-associated gas producing field in Brazil, we have been working to bring the field to record production levels in 2007, and the field is now producing close to the maximum within the contract with Petrobras. All six wells in the field were drilled, completed and in production by year-end. Two of the wells were producing by the first quarter. Three other wells drilled in 2006 were tied-in to the production facilities later in the year.

During 2007, the Manati field produced 116.18 million standard m^3 of gas (730 749 BOE) and 12 129 barrels of condensate, totaling 742 878 barrels of oil equivalents (BOE) or 2 035 BOE/day net to the company's 10 % interest. Manati gas sales were 109.45 million standard m^3 (688 419 BOE net to Norse Energy) or 1 886 BOE/day. The sales price net of royalties and taxes averaged USD 4.70 per million BTU. The wells reached a record flow rate of 6.1 million sm^3 (~3 800 BOE) per day in mid January 2008.

Oil production from the Coral field was 482 985 barrels of 41° API oil, resulting in sales of 456 418 barrels at an average price of USD 71.97 net to the company's 35 % interest. Production was volatile due to several workovers required to keep the wells in production. The field is nearing its projected economic life and as of year-end our third-party-prepared engineering report reflected Coral reserves as Contingent Resources. This was reflected in an impairment charge which left Coral valued at zero in the Balance Sheet at the end of the year. At the end of the first quarter, the field is still producing.

The environmental license for the Gengibre well in the BCAM-40 exploration block was received in August. The well was spudded in late September 2007, and reached total depth in January 2008. The well logs revealed three hydrocarbon bearing zones, and production testing is scheduled for the first half of 2008. The company is awaiting environmental licenses in order to drill other exploration wells.

Norse Energy acquired a 50 % interest in three offshore blocks in the Santos Basin in the 9th concession round and was awarded the license as operator of the blocks – a first for the company. Plans progressed for the development of the company's other fields in the Santos Basin, primarily the Cavalo Marinho field in the BS-3 block. The field is being evaluated for a possible integrated development plan with other fields in the basin to include a pipeline to shore for gas transportation of associated gas.

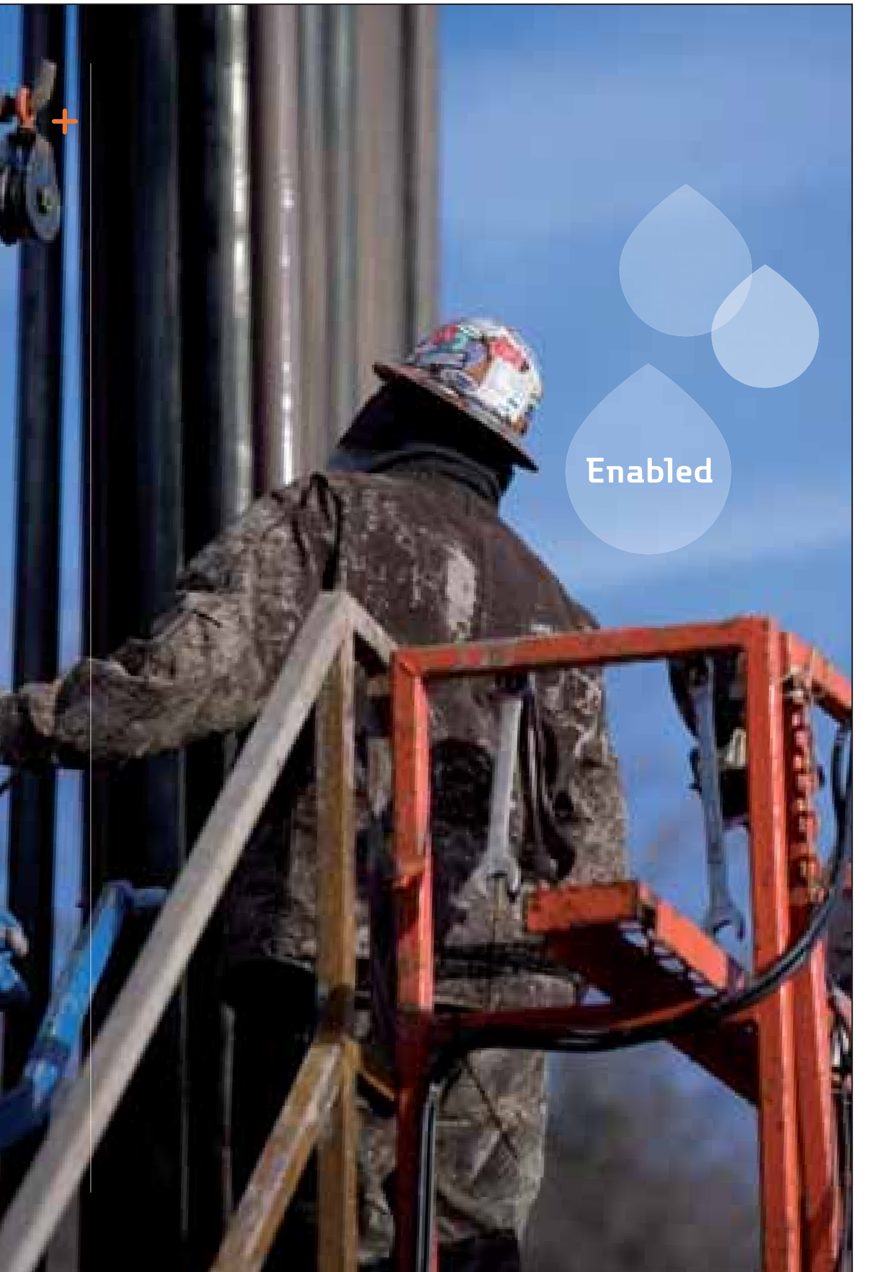
<u>US Division</u>
The big news in the US operations this year was the decision to concentrate our experience and technical skills on higher-impact drilling and under-exploited target formations. As a result, a decision was made to sell the Jamestown properties. This transaction closed after year-end with a purchase price before final adjustments of USD 67 million. No employees were let go in the process as the new business plan requires all the existing competence.

In the US, we successfully drilled 36 wells with a 100 % completion rate. The company cut its drilling plans short of the original plans as a result of our shift in strategy, which included the divesture of the Medina field development assets to strengthen company focus on land leasing, seismic and higher impact exploration drilling in the northern Appalachia. The company continued to operate all its own wells, bringing the total number of wells operated for the year to 386, including the Medina wells. Gas production reached another record high for the company at an average of 850 BOE/d. The company added 89 000 gross leased acres to the company's acreage position, which stood at about 200 000 acres at year-end (including about 50 000 acres related to the Medina assets held for sale).

The transportation division had another record year as the average daily throughput was 18 764 MMBtu up 7.4 % from 2006. Energy Marketing boosted sales to a record high of USD 158 million.

The company also established a small division to concentrate on strategic acquisitions and divestitures. We invested in a small E&P company operating within our core area of interest in the Appalachian Basin. Subsequently, the majority assets of that company were sold to a larger Appalachian producer in exchange for cash and a 17.5 % interest in the purchasing company. Together with the buyer, we began late in the year an exploratory program targeted at deeper horizons.

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 Account-



ing Act. The premise of the going concern assumption is based upon the financial position of the company, its good liquidity, and the development plans currently in place.

The financial statements reflect the activities in 2007, and the company's financial position is considered to be satisfactory. The consolidated accounts are presented in US dollars, which is the functional currency for the parent company.

Financial Performance and Activities
The financial results for 2007 were significantly affected by increased production and large capital expenditures, as well as impairment on Coral carried out in the fourth quarter. The decline in net results compared to 2006 was mainly attributable to higher depreciation and impairment charges, which were offset by record production. This increased production together with high oil and natural gas prices, generated almost a doubling of EBITDA compared to 2006.

Norse Energy capital expenditure program for 2007 totaled USD 53 million, split in USD 24 million for the Brazilian division and USD 29 million for the US division. In addition, assets in the Brazilian division increased with foreign exchange effects of approximately USD 16 million together with capitalized interest of USD 7 million.

In 2007, total sales revenues were USD 214.7 million, an increase of approximately 15 % from USD 186.7 million in the previous year. A significant portion of the sales revenue relates to Norse Energy's Marketing division in the US which contributed with revenues of USD 158.2 million in 2007, compared to USD 148.3 million in 2006.

EBITDA for the year 2007 was USD 26.8 million, up from USD 15.9 million in 2006. Cash flows from operations were USD 2.8 million in 2007 - down from USD 32.3 million in 2006.

Net loss for 2007 was USD 28.7 million, compared to a net loss of USD 12.4 million in 2006. A significant part of the net loss is related to non-cash financial charges. As already mentioned, Norse Energy's result for 2007 was negatively affected by significant Coral depreciations and an impairment charge in the fourth quarter, and several other financial entries also impacted the 2007 financials:

- In October 2006, Norse Energy entered into a forward contract to purchase 12 % of the shares in the Norwegian listed company Revus Energy ASA. For 2006, this contributed to an unrealized loss of USD 2 million at year-end due to a lower share price of Revus. The company sold the shares in February 2007 and settled the forward contract at a net profit of about USD 5 million. The positive contribution for the year was thus USD 7 million.

- During 2006, Norse Energy entered into two loans with detachable warrants. The warrants are separately listed on the OSE, and the fair value of the warrants is estimated at each reporting date with any change in the fair value being recorded in the income statement. This contributed to a financial expense of USD 3.3 million in 2007.

- Imputed interest for the USD bonds with detachable warrants resulted in additional interest costs of approximately USD 2.1 million.

- Interest expense and amortization of loan costs for NOK loans totaled USD 16.2 million for the year, up approximately 91 % from 2006. The increase is a result of bond issues in Q3 2006 and in Q2 and Q3 2007.

- In 2005, the company acquired oil put options with a strike price of USD 50 for 1 000 barrels of oil per day at a cost of USD 3.3 million. As the put options currently are out of the money, an expense of USD 2.1 million related to fair market adjustment and write-off of cost for expired options was charged to the income statement in 2006 and the remaining value of the options was expensed in 2007.

Coverage of Loss in Norse Energy Corp. ASA
The Board of Directors proposes that the deficit for the year of NOK 252.7 million in the parent company as well as losses of NOK 79.2 million from prior years, are covered by share premium reserve. As of December 31, 2007 the company has no unrestricted equity.

Share, Debt and Bond Issue
There were no share issues in the company during 2007.

At the end of the second quarter of 2007, the company raised NOK 100 million in a 3-year bond issue yielding 3 months NIBOR plus 4.25 %. On August 14, 2007, the company raised another NOK 100 million under this facility on the same terms and conditions. The bond issues are unsecured and listed on the Alternative Bond Market (ABM) as FRN Norse Energy Corp. 07/10 CALL. The company has swapped the bond loan into USD at 3 months LIBOR plus 4.40 %.

For further details on the company's bond loans, refer to note 17 in the consolidated financial statements.

During the third quarter of 2007, the company's fully owned subsidiary Norse Energy do Brasil S.A. filed with the Brazilian Securities Commission (CVM) to become a publicly traded company. On October 29, 2007, Norse Energy do Brasil filed a request with CVM for the registration of an initial public offering of shares to be listed on the Bovespa Stock Exchange in Sao Paolo. However, given the current volatility in the international capital markets, the Board of Directors of the company considered it appropriate to postpone the listing of the Brazilian subsidiary. Going into 2008, the company continues to evaluate the situation of how to best develop the company going forward.

The Balance Sheet
Norse Energy's total assets increased by USD 34 million in 2007, which was mainly due to foreign exchange effects and increased investments in property and equipment in Brazil, partially offset by increased depreciation and impairment on

the Coral field. The asset balance was USD 402 million at the beginning of the year, whereas the asset balance was USD 436 million at the end of the year. Of this, current assets amounted to USD 126.9 million, including USD 36.6 million in assets held for sale related to the Medina field assets. Long-term liabilities amounted to USD 231.2 million. Short-term liabilities were USD 121.0 million, representing 34 % of total liabilities. At the end of 2007 the book equity ratio was 19 %, compared to 26 % at the end of 2006. The Board is comfortable with the solidity of the company at present, but recognize the need for strengthening of the balance sheet going forward as capital expenditures intensify, especially with regards to exploration drilling in Brazil.

The book values for the various fields as of December 31, 2007 are as follows:

In USD million as of December 31, 2007	
Brazil	
Coral	0
Estrela-do-Mar	20
Cavalo Marinho	56
Manati	110
BCAM-40	19
BM-CAL 5&6	16
Remaining fields	4
Total Brazil	**225**
USA	
Retained US E&P assets	33
Pipeline	20
Total USA	**53**
Total non-current field assets	**278**
Medina field assets held for sale	**36**
Total field assets	**314**

At December 31, 2007 and at the date of this report, the company was either in compliance with the loan covenants or had obtained waivers.

Risk Factors
The company's primary products, crude oil and natural gas, are exposed to continuous price fluctuations. Furthermore, the development of oil and gas fields in which the company is involved is associated with significant technical risk. Such operations might occasionally lead to cost overruns and production disruptions, as well as delays compared to the plans laid out by the operators of these fields.

The company has taken several measures to reduce these market risks. Oil put options have been purchased for a significant portion of the Coral production, while portions of the US natural gas production have been hedged using forward sales. For further details on the use of financial instruments, refer to note 11 in the consolidated financial statements.

The company's revenues and expenses are primarily denominated in US Dollars; however the gas contract in Brazil for the Manati gas sales is denominated in the local currency. Some other costs and income items are also incurred and earned in the local currency in Brazil and Norway. The company has not taken specific measures to hedge against fluctuations in exchange rates between Brazilian Real and US Dollar, since there is a high degree of balance in the cost and revenue denominated in Brazilian Real.

The company's loans have a combination of floating and fixed interest rates. The NOK 300 million bond loan has been swapped into USD rate – NOK 250 million at a fixed rate and NOK 50 million at floating interest. The NOK 200 million bond loan that was issued in 2007 has been swapped into a floating USD rate, leaving the company with no NOK exposure on its loans. For details on this, refer to note 17 in the consolidated financial statements.

Financing the development of company reserves beyond 2007 is expected to be supported by a mixture of loans and cash flow from operations and the optimal financing structure is continuously being evaluated. There are no assurances that total financing will be successfully secured to develop all company projects and assets. As of year-end 2007, the company's liquidity is considered satisfactory, particularly in light of the most recent bond issues and cash received from our Medina asset divestiture.

Norse Energy could potentially be classified as a passive foreign investment company for U.S. federal income tax purposes. In that event, beneficial owners of common stock which are subject to U.S. federal income tax could incur adverse consequences. Such beneficial owners of Norse Energy common stock should consult their tax advisors.

Corporate Governance
The principle behind good corporate governance is to establish and maintain a strong, sustainable and competitive company in the best interest of the shareholders, employees, business associates, third parties and society at large. The Board recognizes that the shareholders and others should have full confidence in the way the company is governed and managed. A successful value-added business is profoundly dependent upon transparency and internal and external trust. We believe 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 our company code of conduct is an invaluable 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 December 4, 2007 and the principle of comply or explain. We have 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 the complete policy is posted on our website at www.NorseEnergy.com.

Discrimination and Equal Employment Opportunities
Norse Energy is an equal opportunity employer, and integrates an equality concept into its human resources policies. All employees are governed by Norse Energy's codes of ethics and operations to ensure uniformity within its workforce. At Norse Energy, we embrace a diversified working environment, valuing and respecting our individual abilities and differences. Employees are remunerated based upon skill level, performance and position within the company. Norse Energy is a knowledge-based company in which a majority of the workforce has earned a college or university level education, or has obtained industry-recognized skills and qualifications specific to their job requirements. Norse Energy supports its employees in continuing development of their skills through ongoing education that furthers Norse Energy's goals of being at the forefront of efficient and innovative industry practices.

During 2007, Norse Energy expanded its workforce in response to the company's continued operational growth and to support future growth. The company employed 95 persons at the end of 2007, whereof 5 in Norway, 21 in Brazil, 68 in the US, and 1 in Canada, 59 % were men and 41 % were women. Women account for 17 % of Norse Energy's senior management. Overall workforce turnover is relatively low.

Health, Safety and the Environment (HSE)
In order for Norse Energy to meet its goals, the company maintains high standards in its work environment, whether in the office or in the field. The safety of our employees is of the highest priority, thus our focus is on continuing to maintain and improve our work environment and to be flexible with initiating new procedures to ensure consistency in safety results as conditions change. This is especially critical during the colder months of our US operations, as weather is frequently a factor in adhering to safety parameters. The company observes excellent industry practices in line with all regulatory required standards for health, safety and the environment. Norse Energy's primary goal is to conduct its operations in such a way that it does not harm people or the environment.

The company's activities in Norway do not pollute the environment. Activities in which the company engages in Brazil and the US are connected with the exploration and production of oil and gas, and are conducted with great sensitivity to avoid pollution of the environment. In Brazil the company's 2007 operations were all conducted in licenses where the operator carries the physical responsibilities of operating at acceptable HSE standards on behalf of the licensees. To our satisfaction, we have noted that no accidents resulted in loss of human lives or damages to property. Furthermore, the reported emissions to the environment have been within limits set by approved environmental regulatory authorities.

In the US, where the company operates nearly all of its oil and gas properties, Norse Energy follows strict environmental and safety policies in accordance with US federal and state regulatory requirements governing such exploration and production activities. During 2007, the company was in compliance with all federal, state and local level regulations regarding workers' health, safety and the environment.

The G&T division conducts annual Occupational Safety and Human Administration (OSHA) training and safety meetings and has an established written safety procedure. Since 2006, the E&P division has employed an individual with significant experience in safety matters to further improve the company's policies.

Company time lost due to employee illness or accident was less than one percent during both 2007 and 2006.

It is the company's policy to always work toward identifying and employing technical solutions that ensure safe and efficient operations. This policy has been pursued during 2007 for all our identified development projects.

The working environment in the company is considered good, characterized by an entrepreneurial spirit where constructive ideas and initiatives are welcomed, and trust between employees and the company's management is solid.

Directors and Shareholders
According to its articles of association, the company must have a minimum of three and a maximum of five directors on its Board. The current number of board members is five, which includes one executive director (the CEO) and four non-executive directors. Two board members are female. The members have varied backgrounds and experience which offer the company valuable perspectives. The Board held 9 meetings during the year.

During 2007, the company's Chairman Axel C. Eitzen was replaced as Chairman by Board member Petter Mannsverk Andresen. Also during 2007, Ms. Lise Heien Langaard joined the company as a member of the Board of Directors, and Mr. Eitzen subsequently resigned from the Board of Directors.

On January 4, 2008, Axel C. Eitzen personally and through his affiliated companies Camillo Energy AS, Camillo Trading AS, Catre AS, Eitzen Invest AS and Ollimac AS sold 67.6 million shares for a consideration of NOK 5 per share. This sale represented approximately 19 % of the outstanding shares in Norse Energy. Approximately 11.7 million shares were bought by insiders and the remaining 55.9 million shares by non-insiders.

Outlook
With the successful completion of the drilling and tie-in work of the Manati Field in Brazil behind us, we will focus in 2008 on the field production program to maximize its potential. Exploration drilling in Brazil will be another area of intense focus going forward with environmental licenses received for three of our prospects and three additional prospects awaiting environmental licenses. We spudded our first offshore exploration well, on the

Gengibre prospect in the BCAM-40 block, in late 2007 and the well is currently being side-kicked.

The development plans for the reserves of the Cavalo Marinho field, either separate or in an integrated solution with the Petrobras-owned Caravela field, continues to be a significant opportunity for the company. Testing of an appraisal well in the Petrobras-operated and -owned adjacent Caravela field is currently underway, and will influence our development plans. By acquiring as operator the license of three additional exploratory blocks in the Santos Basin during the 9th Bid Round, we made a further commitment to the Santos Basin. We also plan to shoot seismic in our three operated licenses offshore Santos Basin as soon as crews are available.

The 9th round was notable for its lack of participation by big international oil companies, as the recent large oil discovery by Petrobras of the Tupi field caused the government to offer fewer blocks. Smaller companies like Norse Energy were granted the majority of the licenses to develop the blocks, and the participation may further strengthen Norse Energy's position and possible influence in the region. The discovery of the vast Tupi and Jupiter fields do not alleviate Brazil's growing natural gas requirement. We believe that Norse Energy is well positioned in basins that will see significant development over the next years.

In our Directors' Report for 2005, we highlighted the Appalachian Basin as one of the most drilled and yet "under-explored" regions of the world. Today it is recognized as the newest hot spot for natural gas exploration in the US. At the same time as Norse Energy was developing its low-risk, long life reserves in the Medina formation, the company was also establishing a position - in land, geology and technical expertise - in areas of northern Appalachia recognized for deeper, higher-impact potential. Reports based on the unconventional Marcellus Shale blanket formation of the area indicate that the reservoir may contain as much as 50 trillion cubic feet of recoverable natural gas (according to a Pennsylvania State University study). As of year-end, the company had approximately 150 000 leasehold acres in which Marcellus shale is present and potentially productive. In addition, we have seismic interpretations and geology data supporting other targeted formations, such as the Herkimer, Oneida/Oswego, Theresa and Black River.

The US 2008 drilling program is a mix of development and exploratory wells, both vertical and horizontal, in a variety of formations. Our first horizontal wells drilled in central New York are anticipated to yield an average of 1.2 bcf in recoverable reserves, however, we are still early on our program. Proceeds from the sale of the Medina assets will fund the higher-impact drilling, but costs are anticipated to be higher than in past drilling programs. However, we will focus on identifying high quality wells to be drilled rather than number of wells drilled. Targeted zones are deeper, rock is harder, and the technology for horizontal drilling is more expensive than traditional Medina drilling. Drilling contractors and service suppliers are in high demand and generally require contracts based upon day rates rather than footage rates. We have currently two rigs drilling in the central New York area, and expect to have additional rigs available by summer.

With production in close proximity to the high energy consumers of the East Coast and Midwest, Norse Energy's US production should remain in high demand. However, in relation to these forward-looking statements, it is important to note the inherent risks described above under "Risk Factors."

We are very enthusiastic about the future for Norse Energy, and believe we have a solid platform on which we intend to create value for all our stakeholders.

The Board of Directors

Lysaker, April 18, 2008
Norse Energy Corp. ASA

Petter Mannsverk Andresen
Chairman of the Board

Jon-Aksel Torgersen
Director

Lise Heien Langaard
Director

Joey S. Horn
Director

Øivind Risberg
Director and Chief Executive Officer

+ BOARD OF DIRECTORS

Petter Mannsverk Andresen, Chairman of the Board, born 1964. Mr. Mannsverk Andresen is partner with marchFIRST, an advisory and investment company. Mr. Mannsverk Andresen was head of Enskilda Corporate Finance from 1997 to 2000. Other positions include Corporate Finance senior staff member in Handelsbanken Markets, Shipping Analyst in R.S. Platou Securities and Senior Project Leader in Arkwright. Mr. Mannsverk Andresen graduated from Oslo Business Management Institute in 1990. Mr. Mannsverk Andresen is a Norwegian citizen and resides in Oslo, Norway.

Lise Heien Langaard, Non-Executive Director, born 1957. Ms. Langaard has long experience from Hafslund ASA and is currently the CEO of Hafslund Produksjon AS. Ms. Langaard is a board member of Kinetic Energy AS. Ms. Langaard holds a master of science from ETH Zurich, Switzerland. Ms. Langaard is a Norwegian citizen and resides in Oslo, Norway.

Joey S. Horn, Non-Executive Director, born 1966. Ms. Horn has significant work experience from investment banking in New York from 1987 to 1995, including Vice President of Mergers and Acquisitions at Credit Suisse First Boston, Financial Analyst and Associate with Smith Barney Corporate Finance and Director of Financial and Merchandise Planning for Saks Fifth Avenue. In Norway, Ms. Horn was a partner and equity research analyst at HQ Norden Securities in Oslo from 1996 to 2000. In January 2008, Ms. Horn joined the Board of Thoresen Thai Agencies Public Company Limited, a shipping and offshore oil and gas related services company listed on the Stock Exchange of Thailand. Ms. Horn has an MBA from Yale University (1991) and a BA from Williams College (1987). Ms. Horn is a US citizen and resides in Singapore.

Jon-Aksel Torgersen, Non-Executive Director, born 1952. Mr. Torgersen is CEO of Astrup Fearnley AS, an international brokerage house involved in shipping, offshore, finance and energy. Mr. Torgersen is a Board member of I. M. Skaugen ASA, Chairman of the Board of Atlantic Container Line AB, Chairman of the Board of Finnlines Plc, and Board member of a number of private companies involved in shipping, energy, financial services and real estate. Mr. Torgersen graduated from the University of St. Gallen, Switzerland with an MBA in 1975. Mr. Torgersen is a Norwegian citizen and resides in Oslo, Norway.

Øivind Risberg, Chief Executive Officer and Executive Director, born 1958. Mr. Risberg took over as CEO of Norse Energy Corp. ASA in 2005 subsequent to the merger. He was the founder and the Managing Director of NaturGass (USA) AS since 1991. Mr. Risberg has 18 years of experience from the oil and natural gas industry. He is a former partner of Alfred Berg Norge AS. Mr. Risberg has been the Chairman of the Board, CEO and President of Norse Energy Corp. USA since 1993. Mr. Risberg is a Board Member of Biofuel Energy ASA. He holds a Bachelor of Science degree from the University of Oslo, Norway, and a Bachelor of Business Administration degree from the Norwegian School of Management. Mr. Risberg is a Norwegian citizen and a resident of Houston, Texas.

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Income Statement

(Amounts in USD 1 000, except share information)

Years ended December 31,	Note	2007	2006	2005
Total revenues	4,5,11	**214 711**	**186 664**	**124 306**
Operating Expenses				
Trading purchase of natural gas	5	-141 588	-135 329	-82 288
Production costs	4	-25 802	-20 550	-14 140
Exploration and dry hole costs	4	-2 629	-1 660	-497
Depreciation	5,9,10	-28 901	-15 124	-12 627
Impairment	5,9	-26 159	-	-
General and administrative expenses	6	-17 870	-13 261	-7 541
Total operating expenses		**-242 949**	**-185 924**	**-117 093**
Operating profit / (-) loss	5	**-28 327**	**740**	**7 213**
Interest income		4 002	2 646	446
Interest expense		-20 064	-11 136	-5 544
Net foreign exchange gain / (-) loss		4 146	1 354	3 497
Other financial items	11	4 134	-6 801	-821
Net financial items		**-7 782**	**-13 937**	**-2 422**
Share of profit / (-) loss from equity accounted investees	4	-423	-	-
Net profit / (-) loss for the year before tax and minority interests		**-36 442**	**-13 197**	**4 791**
Income tax	7	7 737	876	-2 560
Net profit / (-) loss for the year before minority interests		**-28 705**	**-12 321**	**2 231**
Minority interests		-	-56	-282
Net profit / (-) loss for the year	5	**-28 705**	**-12 377**	**1 949**
Earnings / (-) loss per share				
Net profit / (-) loss for the year before tax and minority interests	8	-0.10	-0.04	0.01
Net profit / (-) loss for the year	8	-0.08	-0.04	0.01
Diluted earnings per share	8	-0.08	-0.04	0.01

The Board of Directors

Lysaker, April 18, 2008
Norse Energy Corp. ASA

Petter Mannsverk Andresen
Chairman of the Board

Jon-Aksel Torgersen
Director

Lise Heien Langaard
Director

Joey S. Horn
Director

Øivind Risberg
Director and Chief Executive Officer

Consolidated Balance Sheet

(Amounts in USD 1 000)

As of December 31,	Note	2007	2006
ASSETS			
Non-current assets			
Intangible assets			
Licenses	4,9	55 442	74 172
Undeveloped fields	4,9	63 675	54 959
Goodwill and other intangible assets	10	5 790	5 826
Total intangible assets	5	**124 907**	**134 957**
Property, plant and equipment			
Field investment and equipment	4,5,9	159 160	164 323
Other fixed assets	4,9	4 459	3 815
Total properties, plant and equipment		**163 619**	**168 138**
Investment in equity accounted investees	4	1 734	-
Other non-current assets	11,15	18 446	7 330
Total non-current assets		**308 706**	**310 425**
Current assets			
Inventory	14	3 051	3 237
Accounts receivable and other short-term assets		43 523	32 296
Cash and cash equivalents	11,15	43 747	55 740
Assets classified as held for sale	3	36 568	-
Total current assets		**126 889**	**91 273**
TOTAL ASSETS	5	**435 595**	**401 698**

Consolidated Balance Sheet

(Amounts in USD 1 000)

As of December 31,	Note	2007	2006
EQUITY AND LIABILITIES			
Equity			
Issued capital	16	43 526	43 526
Share premium reserve	16	76 983	76 983
Treasury shares	16	-14	-14
Total paid-in equity	16	120 495	120 495
Other equity		-37 072	-15 280
Total equity	**16**	**83 423**	**105 215**
Long-term liabilities			
Long-term interest bearing debt	11,17	194 660	158 758
Deferred tax liability	7	14 460	29 943
Asset retirement obligations	4,18	12 632	10 640
Other long-term liabilities		9 431	10 968
Total long-term liabilities		**231 183**	**210 309**
Current liabilities			
Accounts payable	11	48 610	45 357
Short-term interest bearing debt	17	48 765	21 861
Other current liabilities		22 018	18 956
Liabilities associated with assets held for sale	3	1 596	-
Total current liabilities		**120 989**	**86 174**
TOTAL EQUITY AND LIABILITIES		**435 595**	**401 698**

Consolidated Statement of Changes in Equity

	Nominal share capital	Share premium reserve	Treasury shares	Retained earnings	Other equity	Minority interest	Total
At January 1, 2006	**39 309**	**63 312**	**-14**	**- 4 481**	**-1 653**	**1 575**	**98 048**
Cash flow hedges,							
amount recognized in income	0	0	0	0	-455	0	-455
Cash flow hedges,							
amount recognized in equity	0	0	0	0	3 262	0	3 262
Employee share options	0	0	0	0	928	0	928
Currency translation and other adjustments	0	0	0	0	-31	0	-31
Other income and expenses for the							
year recognized directly in equity	0	0	0	0	-47	0	-47
Net loss for the year	0	0	0	-12 377	0	0	-12 377
Total income and expenses for the year	0	0	0	-12 377	3 657	0	-8 720
Share issue net of cost	4 217	13 671	0	0	0	0	17 888
Acquisition of minority	0	0	0	0	-426	-1 575	-2 001
At December 31, 2006	**43 526**	**76 983**	**-14**	**-16 858**	**1 578**	**0**	**105 215**
At January 1, 2007	**43 526**	**76 983**	**-14**	**-16 858**	**1 578**	**0**	**105 215**
Cash flow hedges,							
amount recognized in income	0	0	0	0	-564	0	-564
Cash flow hedges,							
amount recognized in equity	0	0	0	0	-749	0	-749
Employee share options	0	0	0	0	768	0	768
Currency translation and other adjustments	0	0	0	-41	7 499	0	7 499
Other income and expenses for the							
year recognized directly in equity	0	0	0	0	0	0	0
Net loss for the year	0	0	0	-28 705	0	0	-28 705
Total income and expenses for the year	0	0	0	-28 746	6 954	0	-21 792
At December 31, 2007	**43 526**	**76 983**	**-14**	**-45 604**	**8 532**	**0**	**83 423**

Consolidated Statement of Cash Flow

Years ended December 31,	2007	2006
Cash flows from operating activities		
Net profit / (-) loss	-28 705	-12 377
Adjustments to reconcile net profit / (-) loss to		
cash flows from operating activities		
Depreciation and impairment	55 060	15 124
Market adjustments, warrants, options and shares	-2 516	6 565
Employee options accrual and other non-cash items	-12 709	1 341
Gain on sale of property, plant & equipment	- 1 470	0
Interest income	-4 002	-3 088
Interest expense	20 064	8 562
Share of net loss of associate	423	0
Working capital adjustment:		
Change in accounts receivable and other short-term assets	-22 525	8 411
Change in accounts payable	3 542	1 698
Change in other assets and liabilities	-4 349	6 089
Net cash flows from operating activities	**2 813**	**32 325**
Cash flows from investing activities		
Investments net of cash, in acquired business	-5 087	-70 752
Proceeds from sale of acquired assets	4 000	0
Acquisition of minority	0	-2 001
Acquisition of oil put options	0	-1 399
Interest received	3 515	2 680
Investment in property, plant and equipment	-59 214	-58 801
Net cash flows from investing activities	**-56 786**	**-130 273**
Cash flows from financing activities		
Net proceeds from issuance of shares	0	17 888
Proceeds from issuance of long-term debt	112 335	147 464
Interest paid	-17 890	-8 909
Repayment of long-term debt	-59 964	-42 239
Net cash flows from financing activities	**34 481**	**114 204**
Effect of foreign currency translation adjustment	**7 499**	**97**
Change in cash and cash equivalents during the period	**-11 993**	**16 353**
Cash and cash equivalents at beginning of the period	**55 740**	**39 387**
Cash and cash equivalents at the end of period	**43 747**	**55 740**

+ NOTES to Consolidated Financial Statements

NOTE 1 Significant accounting principles

Corporate information
Norse Energy Corp. ASA and its subsidiaries ("Norse Energy" or "the company") were established as a result of the merger between NaturGass (USA) AS (NG) and Northern Oil ASA (NOI) in 2005. The transaction was effective for accounting purposes, February 25, 2005.

Norse Energy is an independent oil and natural gas company engaged in the acquisition, exploration and development of oil and natural gas properties in Brazil and in the US. In the US, the company operates the majority of its natural gas properties, and in addition owns and operates gathering and transmission pipeline systems for natural gas and is engaged in marketing of natural gas through its Energy Marketing division.

The company is the 100 % owner (direct and indirect) of all active companies in Brazil and the US, see note 24 for information on Company Structure. The company's shares are traded on the Oslo Stock Exchange (OSE).

Statement of compliance and basis of preparation
The consolidated financial statements for the year ended December 31, 2007 were authorized for issue and signed by the Board of Directors on April 18, 2008. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and related interpretations, as well as additional disclosure requirements from the Norwegian Accounting Act and Oslo Stock exchange regulations, effective for the year ended December 31, 2007.

In preparing the consolidated financial statements for the current year, the company has adopted the following amendments to IFRS and new standards:
- IFRS 7, Financial Instruments: Disclosures

Basis of consolidation
The consolidated accounts are comprised of the parent company Norse Energy Corp. ASA and its subsidiaries in Canada, Brazil and the US.

The consolidated accounts are prepared in USD, which is the functional currency of Norse Energy Corp. ASA. USD is also the functional currency for all subsidiaries except for Rio das Contas and Morro de Barro that have Brazilian Real as the functional currency. Consistent accounting policies are applied in the accounts of the companies and their respective subsidiaries, for the purpose of preparing the consolidated figures. All significant inter-company transactions, receivables and liabilities are eliminated.

The purchase method of accounting is applied when accounting for business combinations. The cost of the acquisition is measured as the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for control of the acquirer plus any cost directly attributable to the business combination. Should further information on assets and liabilities as at the transaction date come to light after the acquisition has taken place, the assessment of the fair value of assets and liabilities may be determined provisionally within 12 months.

Comparable numbers for 2006 in the cash flow statement have been reclassified to correctly compare to 2007.

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

Foreign currency translation
Functional currency is the currency of the primary economic environment in which each company operates and is normally the currency in which the company primarily generates revenues and incurs expenses.

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

In the consolidated financial statements, the assets and liabilities of non-USD functional currency subsidiaries, including related goodwill, are translated into USD at the rate of exchange ruling at the balance sheet date. The results and cash flows of non-USD functional currency subsidiaries are translated into USD using average rates of exchange. 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.

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

Associates are accounted for using the equity method and are initially recognized at cost. The company's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements includes the company's share of the income and expenses and equity movements of the investee, after adjustments to align the accounting principles of the investee to those of Norse Energy, from the date that significant influence commences until the date such influence ceases. When the company's share of losses exceeds the interest in the investee, the carrying amount of the interest is reduced to zero and further losses are only recognized to the extent that the company has an obligation or has made payments on behalf of the investee.

Where a group entity transacts with an associate of the company, profits and losses are eliminated to the extent of the company's interest in the relevant associate.

Interests in joint ventures
A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint control exists when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties.

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

Sales revenues
Sales of petroleum products are recorded as income at the time of delivery as the title passes to the customer based on the contractual terms of the agreements. The company uses the entitlement method to account for gas imbalances. Under this method, revenue is recorded on the basis of the company's proportionate share of total gas sold from the affected wells. Revenue from fields in production is recorded net of royalties.

Revenue from gathering fees is recorded on an accrual basis as the gas is gathered. Both sales revenues and purchases related to the Energy Marketing division are recorded gross.

Income tax
The tax expense consists of payable tax and changes to deferred tax. Deferred tax/tax assets are calculated on all taxable temporary differences, with the exception of goodwill for which amortization is not deductible for tax purposes. The single asset exemption is used when deemed appropriate.

Deferred tax assets are recognized when it is probable that the company will have a sufficient profit in the future for tax purposes to utilize the tax asset. At each balance sheet date, the company carries out a review of its deferred tax assets and the value it has recognized. The company recognizes formerly unrecognized deferred tax assets to the extent that it has become probable that the company can utilize the deferred tax asset. Similarly, the company reduces its deferred tax assets to the extent that it can no longer utilize these.

Deferred tax assets and deferred tax liabilities are measured on the basis of the expected future tax rates applicable to the subsidiaries where temporary differences have arisen.

Deferred tax assets and deferred tax liabilities are recognized at their nominal value irrespective of when the differences will be reversed and classified as non-current asset or long-term liabilities in the balance sheet.

The payable tax and deferred tax is recognized directly in equity to the extent that they relate to transactions that are recognized directly in equity.

Earnings per share
Earnings per share is calculated using earnings for the period divided by the weighted average number of shares outstanding during

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

Non-current assets held for sale
Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continued use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. The company's management must be committed to the sale, and the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Once property, plant and equipment and intangible assets are classified as held for sale, no further depreciation will take place.

Goodwill
Excess value on the purchase of operations that cannot be allocated to identifiable assets or liabilities on the acquisition date is classified in the balance sheet as goodwill.

The goodwill acquired in a business combination is measured after initial recognition at cost less any accumulated impairment losses. The goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

Property, plant, equipment and intangible assets
Licenses, undeveloped fields, and property, plant and equipment are recorded in the balance sheet at their historical cost less accumulated depreciation and any write-downs.

The company accounts for its natural gas exploration, development and production activities under the successful efforts method of accounting. Under this method, costs of acquiring properties, costs of drilling development wells, and costs of drilling successful exploratory wells are capitalized. Costs without any identifiable future benefit are expensed, like geological and geophysical costs, and the costs of drilling exploratory wells that do not find proved reserves. Capitalized costs and production equipment are depleted under the unit-of-production method based on estimated proven developed oil and natural gas reserves, while depletion of licenses are based on proven developed and undeveloped reserves. Costs for future abandonment of the offshore and onshore facilities are capitalized as part of the investment, and accrued as a liability. Interest costs related to financing for fields under development are being capitalized.

The depletion base includes total capitalized costs and it is reduced with salvage value.

In classifying such costs, a distinction is made between tangible and intangible assets. This assessment is made on a field-by-field basis. Costs relating to drilling of exploratory wells and geological and geophysical activities are classified as intangible assets. Such assets will be re-classified to tangible assets when the technical feasibility and commercial viability of extracting the resources are demonstrable.

Depreciation for the natural gas gathering systems and the transmission line is computed using the straight-line method over a period of 20 and 30 years of useful life.

Furniture's, fixtures and equipment is depreciated straight-line over 3 to 10 years and buildings 25 to 40 years.

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

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

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

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

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

If the hedge no longer meets the criteria for cash-flow hedge accounting, the hedge accounting is discontinued. The cumulative gain or loss on the hedging instrument recognized directly in equity remains separately recognized in equity until the forecast transaction occurs.
If the hedged transaction is no longer expected to occur, any previously accumulated gain or loss on the hedging instrument that has been recognized directly in equity will be recognized in profit or loss.

Share options granted to employees
The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (vesting date).

Pension expenses
Norse Energy has no pension liabilities or pension plans for foreign subsidiaries.

Pension costs and pension liabilities in the parent company are estimated and recognized on a straight line basis considering final salary. The calculation is based on actuarial assumptions, e.g. discount rate, future salary adjustments, future return on pension funds and assumptions on mortality and voluntary resignation. Pension funds are recognized at fair value and deducted from net pension liabilities in the balance sheet. When the accumulated effect of changes in and deviations from actuarial assumptions (changes in estimates) exceed 10% of the higher of pension obligations and pension plan assets, the excess amount is recognized over the estimated average remaining service period. The parent company changed pension plans in mid-2007. The new defined contribution plan in place has resulted in no pension liabilities being recorded by year-end 2007.

Inventory
Inventories consist of unlifted crude oil and are valued at lower of production cost and net realizable value. Production cost consists of cost of direct material, labor and certain corporate overhead cost. Net realizable value is the estimated selling price in the ordinary course of business, less estimated selling expenses.

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

Receivables
Receivables are carried at amortized cost. The interest element is disregarded if it is insignificant. Should there be objective evidence of a fall in value, the difference between the carrying amount and the present value of future cash flows is recognized as a loss, discounted by the receivable amount's effective interest rate.

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

Costs of equity transactions
Transaction costs relating to an equity transaction are recognized directly in equity after deducting tax expenses. Only transaction

costs directly linked to the equity transaction are recognized directly in equity.

Cash-flow hedges
Cash-flow hedges represent the total net change in the fair value of the cash-flow hedge until the hedged cash flow arises or is no longer expected to arise.

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

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

Asset retirement obligation
Net present value of the estimated asset retirement obligation is recognized as soon as the obligation to dismantle and remove production assets, pipelines and other installations exists. The corresponding cost of the retirement obligation is capitalized as part of the development cost or acquisition cost and depreciated. The asset retirement obligation is accreted to the discounted liability, with the accretion of the discount being classified as interest expense.

Provisions
Provisions are recognized when the company has a valid liability (legal or estimated) as a result of events that have taken place and it can be proven probable (more probable than not) that a financial settlement will take place as a result of this liability, and that the size of the amount can be measured reliably. Provisions are reviewed on each balance sheet date and their level reflects the best estimate of the liability. When the effect of time is insignificant, the provisions will be equal to the size of the expense necessary to be free of the liability. When the effect of time is significant, the provisions will be the present value of future payments to cover the liability. Any increase in the provisions due to time is presented as interest costs.

IFRS and IFRIC Interpretations Not Yet Effective
As of the date of authorization of these financial statements, the standards and interpretations detailed below are anticipated to be relevant to Norse Energy's financial reporting under IFRS.

- Amendment to IFRS 2, Share-Based Payment: Vesting Conditions and Cancellations (effective January 1, 2009)
- Amendment to IFRS 3, Business Combinations (effective July 1, 2009)
- IFRS 8, Operating Segments (effective January 1, 2009)
- Amendment to IAS 1, Presentation of Financial Statements: A Revised Presentation (effective January 1, 2009)
- Amendment to IAS 23, Borrowing Costs (effective January 1, 2009)
- Amendment to IAS 27, Consolidated and Separate Financial Statements (effective January 1, 2010)
- Amendment to IAS 32, Financial Instruments: Presentation and IAS 1, Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation (both effective January 1, 2009)
- IFRIC 11, Group Treasury Share Transactions (effective January 1, 2008)
- IFRIC 12, Service Concession Arrangements (effective January 1, 2008)
- IFRIC 13, Customer Loyalty Programmes (effective January 1, 2009)
- IFRIC 14, IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements (effective January 1, 2008)

The effective dates listed above are applicable to accounting periods beginning on or after that specific date. The company plans to adopt the new standards and interpretations from each of the effective dates.

The company expects that adoption of the pronouncements listed above will not have any major impact on the company's financial statements in the period of initial application. However, such impacts are still being evaluated.

Use of estimates
Preparation of the financial statements requires Norse Energy to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, as well as disclosures of contingencies.

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

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

Reserves
The company uses reserve reports prepared by independent reservoir engineer firms (Gaffney Cline & Associates for reserves in Brazil and Schlumberger Data & Consulting Services for reserves in the US) as basis for its investment plans in oil and gas properties. Such reports are obtained at least annually to establish the expected production profiles for the fields in production and the expected economic lifetime of the fields. Any significant reduction in reserves might lead to a write down of field investments through impairment tests, increased future depreciations and alterations of planned capital expenditures. The carrying amounts for field investments were USD 159 million and USD 164 million in 2007 and 2006, respectively.

Inventory
Estimated selling price is normally based on Brent Blend and the estimated selling expenses are based on average direct production costs including royalties. The carrying amounts for inventory were USD 3.1 million and USD 3.2 million in 2007 and 2006, respectively.

Asset Retirement Obligation
When production from a well or a field ceases, the company is obligated to shut in the well and remove installation from the well or field. Provisions for these costs are the best available estimates from the field operator, based on today's technology and today's prices for equipment and manpower. The amount recognized is the estimated expenditures determined in alignment with the field operator, local conditions and requirements. Asset retirement obligations were booked at USD 12.6 million and USD 11.0 million in 2007 and 2006, respectively.

Technical risk in development of Brazilian oil and gas fields and production start-up
The development of the Brazilian oil and gas fields in which Norse Energy 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.

NOTE 2

Business combination

During 2007 and 2006, the company had several business combinations. The financial statements for 2006 have been changed due to purchase price allocation carried out in 2007.

Acquisition of Vandermark and sale of Vandermark assets
During the first quarter of 2007, Norse Energy completed the acquisition of a small E&P company, Vandermark Exploration Inc., operating in New York State. Immediately following the acquisition, the company sold the majority of the Vandermark assets to Somerset Production Company (Somerset) with a net gain of USD 1.45 million which reflected

- a gain of USD 0.9 million booked in the first quarter representing the difference between the cash payment received and the value of retained assets, and
- a gain of USD 0.55 million booked in the fourth quarter representing 17.5 % of the value of the assets sold to Somerset in return for 17.5 % ownership interest in Somerset.

Somerset is a Delaware limited liability company engaged in the business of oil and natural gas exploration and production in the Appalachian Basin. Somerset has an interest in about 100 000 acres of land in New York State and has raised a significant amount of capital in order to carry out the current exploration program. However, as a reliable measure of the price of shares in Somerset could not be established, only USD 0.55 million reflecting our indirect interest in the assets sold to Somerset has been attributed to this ownership when accounting for business combinations.

Acquisition of additional 7.5% interest in the BS-3 project
In May 2006, the company executed a final purchase agreement with Starfish Oil & Gas SA, a Brazilian Corporation, to buy its 7.5 % participating interest in the BS-3 project. The BS-3 Project includes the Cavalo Marinho, Estrela-do-Mar and Coral fields. The acquisition was effective as of March 1, 2006, and ANP approval was given in August 2006. The purchase price was adjusted with a pro-contra settlement for activity in the period, and production resulting from the purchase is included from August.

For accounting purposes, the acquisition was reassessed in the second quarter in 2007. The purchase price was USD 17.5 million whereof USD 3 million is contingent upon certain milestones. As of December 31, 2006 USD 16 million was booked for this acquisition. Upon reassessing this acquisition, management believes the remaining contingent payment of USD 1.5 million related to Coral performance, will not become payable.

The pro-contra settlement reduced Norse Energy's purchase price for the Coral field with USD 1.9 million to USD 6.6 million. The final purchase price allocation for this acquisition is shown in the table below:

7.5 % interest in the BS-3 project (in USD million)	**August 2006**	**Pro contra**	**Adjustment June 2007**	**Final allocation**
Coral (7.5 %)				
- Field investments	8.50	-1.90	-3.30	3.30
Cavalo Marinho (7.5 %)				
- Undeveloped Fields	7.00	-	-6.83	0.17
- Licenses	-	-	6,44	6.44
Estrela-do-Mar (7.5 %)				
- Undeveloped Fields	0.50	-	-0.36	0.14
- Licenses	-	-	3.79	3.79
TOTAL	**16.00**	**-1.90**	**-0.26**	**13.84**

Acquisition of additional 15% interest in Cavalo Marinho and 30% interest in Estrela-do-Mar
Norse Energy purchased a 15 % interest in Cavalo Marinho and 30 % interest in Estrela-do-Mar from Queiroz Galvão Perfuração SA in November 2005. The company received ANP approval of the acquisition in July 2006. The purchase price was USD 14 million and it is conditional upon certain milestones.

For accounting purposes, the acquisition was reassessed in the second quarter of 2007. Upon reassessing this acquisition, management believes all milestones will be met, and the purchase price should remain at USD 14 million. Management's final purchase price allocation is in line with the allocation as of year-end 2006; USD 9 million is booked for the interest in Cavalo Marinho and USD 5 million is booked to Estrela-do-Mar.

Acquisition of interest in the Sardinha field
In November 2006, Norse Energy received the ANP approval for the 20 % interest acquired from Companhia Brasileira de Petróleo Ipiranga for the Sardinha field in the State of Bahia offshore Brazil. The purchase price was USD 4 million and is subject to certain milestones. As of December 31, 2006, no portions of the purchase price had been booked. Management has reassessed this as of March 31, 2007, and booked a total of USD 4 million to undeveloped fields.

Acquisition of Rio das Contas Produtora de Petroleo Ltda (Rio das Contas) and Morro do Barro Produtora de Petroleo Ltda (Morro do Barro)
In early 2006, Norse Energy acquired the companies Rio das Contas and Morro do Barro from Petroserv. Rio das Contas holds a 10 % interest in the BCAM-40 block offshore Brazil, which includes the Manati field. Morro do Barro holds an 18.3 % interest in both BM-CAL 5 and BM-CAL 6 blocks, also offshore Brazil. The total consideration for these interests was USD 40 million.
For accounting purposes, the acquisition was reassessed in the second quarter. Upon reassessing this acquisition, management has made certain adjustments to the purchase price allocation. The final purchase price allocation for this acquisition is shown in the table below:

Rio das Contas & Morro do Barro (in USD million)	August 2006	Adjustment June 2007	Final allocation
Manati (10 %)			
- Field investments	28.32	-	28.32
- Licenses	33.95	-10.25	23.70
BCAM-40 Exploration block (10 %)			
- Licenses	-	11.99	11.99
BM-CAL 5&6 (18.33 %)			
- Licenses	11.65	-1.74	9.91
- Current assets	0.05	-	0.05
Total assets	73.97	-	73.97
Assumed liabilities	18.77	-	18.77
Deferred tax upon acquisition	15.20	-	15.20
Total fair value of assets	**40.00**	-	**40.00**

NOTE 3

Assets held for sale

Sale of Medina Field Assets
On October 29, 2007, Norse Energy accepted an offer to sell all of its operated Medina Field assets in New York and Pennsylvania. On January 17, 2008, the company entered into a Purchase and Sale Agreement with EnerVest, Ltd. and certain of its affiliated parties to sell these assets for a consideration of USD 67 million. The transaction closed after year-end on March 14, 2008. The effective date of this transaction will be January 1, 2008.

The company has reclassified this group of assets to "Assets held for sale" as of December 31, 2007 in line with applicable IFRS standards. Due to this reclassification, no depreciation has been recognized in the fourth quarter related to the Medina field assets. The major classes of assets and liabilities related to the Medina Field assets, reported within the US E&P segment, classified as held for sale at December 31, 2007 are set out below:

(Amounts in USD 1 000)	
Assets	2007
- Field investments	36 541
- Trade receivables	27
- Cash and cash equivalents	0
Total assets classified as held for sale	36 568
Liabilities	
- Abandonment costs	-1 287
- Other liabilities	-309
Total liabilities associated with assets classified as held for sale	**-1 596**
Net assets classified as held for sale	34 972

NOTE 4 Interests in joint ventures

JOINT VENTURES

Brazil

Santos Basin

Norse Energy participates in multiple E&P Joint Ventures agreements in Brazil. The company's entrance in Brazilian oil industry were made by participating in three oil development and production licenses located in the Santos basin outside the southeast coast of Brazil together with the partners Petrobras (Operator) and Queiroz Galvão. These licenses are for Coral, Estrela-do-Mar and Cavalo Marinho. Per year-end Norse Energy owns a 35 % interest in Coral, 65 % in Estrela-do-Mar and 50 % in Cavalo Marinho.

The Coral field has been developed and in production since February 2003. The license partners have entered into joint venture agreements in respect to the exploration and development of the Coral and Estrela-do-Mar fields, and another similar agreement for the Cavalo Marinho field.

The joint venture partners in the Coral field have also entered into an oil sales agreement with Petrobras for the oil produced from the Coral field with price linked to Brent Blend.

In the ANP (Brazilian Petroleum Agency) 9th bidding round held in November 2007, the company was awarded three blocks in the Santos basin; blocks S-M-1035, S-M-1036 and S-M-1100. Norse Energy is the operator of these blocks with an interest of 50 %. The contracts will be signed in 2008.

Camamu-Almada Basin

Norse Energy's asset portfolio in Brazil also includes three distinct Joint Ventures in the Camamu-Almada offshore basin, located on the northeastern coast of the country: BCAM-40 Block, Sardinha field, as well as BM-CAL 5 and BM-CAL 6 exploration blocks.

The concession for BCAM-40, covering approximately 935 km2, was awarded to Petrobras in 1998. In 1999 Petrobras presented a farm-in opportunity for participation in the concession. As a result of that offering a Consortium Contract, a Participation Agreement and a Joint Operating Agreement among Petrobras, Queiroz Galvao and Petroserv were executed in 2000. In 2006, Norse Energy finalized the acquisition of Rio das Contas Petróleo Ltda from Petroserv, a company that participates in the consortium. Two important discoveries were made on this block: the Manati gas field, currently the second biggest unassociated gas field in Brazil, and the BAS-131 oil and gas accumulation, which is under evaluation. Petrobras operates the exploration and development and production activities in the block and holds 35 % of the interests, while Queiroz Galvao is the majority partner with 55 % and Rio das Contas participates with 10 %.

The Sardinha field lies about 3 km from the coast line of Bahia State. It is a gas field with an oil rim on the eastern side of the structure. The operator is El Paso Corporation (40 %) and the partners are Petrobras (40 %) and Norse Energy (20 %). The consortium is currently discussing the development plan of the field.

Norse Energy is part of another Joint Venture in the Camamu-Almada basin for the exploration blocks BM-CAL 5 and BM-CAL 6. Both blocks comprise an area of 1 120 km². The Joint Venture consists of Petrobras (operator) that holds 45 % interest, Queiroz Galvao with 18.34 %, El Paso with 18.33 % and Norse Energy, through its subsidiary Morro do Barro Petróleo with 18.33%.

Lastly, Norse Energy is involved in a Joint Venture related to the concession of the exploration blocks BT-REC-22 and BT-REC-30. These blocks cover a total of 51 km² and are in the first exploration period. The composition of the consortium that holds the concession is: Starfish Oil and Gas (operator with 40 %), Norse Energy (30 %) and Dove Energy (30 %).

Development and production is in accordance with the joint operating agreements under joint control. The joint venture agreements correspond to a widely adopted practice in the international oil industry, where companies endeavor to share the risks inherent in exploration and production projects.

USA

In the US certain of the natural gas wells are in joint control with other partners. The joint venture agreements correspond to a widely adopted practice in the international oil industry, where companies endeavor to share the risks inherent in exploration and production projects.

ASSOCIATES

During the first quarter of 2007, the company acquired a 17.5 % interest in Somerset as part of the payment for assets in the Vandermark transaction (see details in note 2). This initial interest was booked at USD 0.55 million which reflected the company's 17.5 % interest in the assets transferred to Somerset, using the same value of the assets as per the business combination assessment. During

2007, the company participated in a private placement of shares in Somerset, and recorded the cost of the purchased shares at USD 1.59 million. Following this offering, Norse Energy has an 18.08 % interest in Somerset booked at USD 2.1 million. Although Norse Energy holds less than 20 % of the common shares of Somerset and it has less than 20 % of the voting power in the shareholder meetings, the company exercises significant influence by virtue of a contractual right to appoint one director to the Board of Directors in Somerset, as well as influence on day-to-day operations together with technical expertise provided by Norse Energy. Refer to note 2 for details on Somerset.

In accounting for the interest in associates, the company has made certain adjustments to the financial statements as provided from Somerset to align this to the accounting principles of Norse Energy. Most notably, adjustments have been made to apply the successful efforts method of accounting as opposed to the full cost method. A summary of the adjusted unaudited financial figures from Somerset for 2007 is provided below:

(Amounts in USD 1 000)

Assets		Liabilities		Income	
Current assets	11 585	Current liabilities	5 166	Revenues	323
Non-current assets	9 226	Non-current liabilities	0	Expenses	-2 665
Total assets	20 812	**Total liabilities**	5 166	**Profit/(-) loss**	-2 342
				Norse Energy share (18.08 %)	-423

Following this loss pick-up, the investment was booked at USD 1.7 million. The company did not hold any interest in associates in 2006.

NOTE 5 Segment information

The primary segment reporting format is determined to be business segments as the risks and rates of return of Norse Energy are predominantly affected by differences in the products sold and services rendered. Secondary information is reported geographically; however, as there is only one defined segment outside of USA, both primary and secondary information is presented in one table. The defined operating segments are organized and managed individually according to the nature of the products and services rendered. Each segment represents a strategic business unit that offers different products and services to different markets.

Transfer prices between segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Norse Energy has four segments:

- **Exploration and Production of oil and natural gas in Brazil (Brazil E&P)**
  Norse Energy participates in a number of oil and natural gas exploration and production licenses located in the Santos basin outside the south-east coast of Brazil and in the Camamu-Almada basin offshore Brazil in the state of Bahia.

- **Exploration and Production of natural gas in the US (USA E&P)**
  The US E&P operates in two main areas, the Lake Shore field of western New York and northwestern Pennsylvania (the Jamestown area) and the Bradley Brook field in central New York. The company operates ~400 wells and owns an interest in several non-oper ated wells. The divisions land, geological and geophysical activities are located in Buffalo, NY.

- **Gathering and Transmission of natural gas in the US (USA G&T)**
  The company owns and operates ~500 miles of gathering and transmission pipelines. One pipeline system consists of about 320 miles of high pressure steel pipeline capable of gathering natural gas from over 6 500 gas wells located in western New York and northwestern Pennsylvania. The lines have delivery points into major interstate pipelines, as well as to local end users.

- **Energy Marketing Division in the US (USA EM)**
  The EM division is made up of Mid American, an established energy marketing and trading company in the Appalachian region. The focus of the EM division is to add value to the company's business by attracting gas flow to its proprietary pipelines and by optimizing the value of the Norse Energy's gas production and that of the other local Appalachian producers. The division offers a full range of services to the natural gas producers, commercial and industrial consumers, and pipeline companies from the Ohio Valley to the East Coast of the US.

Corporate overhead expenses, assets and liabilities from the Houston and Oslo offices are presented together under the heading Corporate. Eliminations are presented separately and consist mainly of intercompany sales, transportation fees and management fees.

(Amounts in USD 1 000)

Financial year 2007

Income Statement	Brazil E&P	USA E&P	USA G&T	USA EM	Corporate	Eliminations	Total
Total revenues	46 621	14 407	6 646	158 247	-	-11 210	214 711
EBITDA*	18 305	6 736	4 123	3 803	-6 109	-35	26 823
Depreciation	-24 138	-3 391	-1 028	-45	-264	-35	-28 901
Impairment	-26 159	-	-	-		-	-26 159
EBIT**	-31 992	3 345	3 095	3 758	-6 373	-70	-28 237
Net profit / (-) loss	-34 229	1 797	2 168	2 842	-15 156	13 878	-28 705

*) *Earnings before interest, taxes, depreciation and amortization*
**) *Earnings before interest and taxes.*

Balance Sheet	Brazil E&P	USA E&P	USA G&T	USA EM	Corporate	Eliminations	Total
Intangible assets	114 705	4 412	-	5 790	-	-	124 907
Field investments	110 493	28 897	19 770	-	-	-	159 160
Total segment assets	265 443	76 205	23 553	38 446	363 397	-331 449	435 595
Total segment liabilities	207 050	68 397	21 106	23 140	237 487	-205 008	352 172

Financial year 2006

Income Statement	Brazil E&P	USA E&P	USA G&T	USA EM	Corporate	Eliminations	Total
Total revenues	28 908	11 572	4 392	148 339	363	-6 910	186 664
EBITDA*	7 319	6 725	2 014	4 610	-4 210	-594	15 864
Depreciation	-11 415	-2 553	-950	-21	-72	-113	-15 124
EBIT**	-4 096	4 172	1 064	4 589	-4 282	-707	740
Net profit / (-) loss	-5 069	2 486	-10	2 213	-13 324	1 327	-12 377

*) *Earnings before interest, taxes, depreciation and amortization*
**) *Earnings before interest and taxes.*

Balance Sheet	Brazil E&P	USA E&P	USA G&T	USA EM	Corporate	Eliminations	Total
Intangible assets	126 733	2 398	-	5 826	-		134 957
Field investments	99 542	42 662	22 119	-	-		164 323
Total segment assets	249 277	58 202	21 765	42 426	338 069	-308 041	401 698
Total segment liabilities	158 471	47 082	22 750	29 967	192 189	-153 976	296 483

For details regarding investments per segment, see note 9.

NOTE 6

General and administrative expenses

Employee benefit expenses
General and administrative expenses include wages, employer's contribution and other compensation as detailed below:

(Amounts in USD 1 000)

Wages and other compensations to employees	2007	2006	2005
Wages	6 135	4 309	2 934
Employer's contribution	1 621	427	212
Other compensation	952	590	222
Total	**8 707**	**5 326**	**3 368**

Number of employees	2007	2006	2005
Norway	5	3	4
USA	68	55	40
Brazil	21	19	13
Canada	1	1	1
Total	**95**	**78**	**58**

Board of Directors statement on remuneration of executives
Statement for the current year (2008)
In accordance with the Norwegian Public Limited Liability Companies Act §6-16a, the Board of Directors must prepare a statement on remuneration of executives.

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

Norse Energy has established a compensation program for executive management that reflects the responsibility and duties as management of an international oil and gas company, and at the same time contribute to added 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 company 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, newspaper, car allowance etc), while the variable elements consist of performance based bonus arrangement and a stock option scheme that was approved by the Annual General Meeting in (AGM) 2006. The annual bonus will be determined based on the achievement of certain pre-set targets.

The Board of Directors is currently considering a new stock option scheme. Such a stock option scheme will primarily follow the regulations of the current stock option scheme, with some practical changes regarding the execution of the options. If the scheme is suggested and approved by the General Meeting, the remuneration will be increased according to the arrangement of the option plan.

The company has established a pension scheme for all employees in Norway that executive management in Norway participates in. There are no agreements in place for severance payment for executive management except for the CEO.

Statement for the prior year (2007)
The remuneration for the company's CEO and executive management in the prior year was based on the same general principles as disclosed above for the current year. During 2007, the company granted stock options to certain key employees, and a total of 9 940 000 stock options out of 10 000 000 approved by the AGM in 2006, had been granted by the end of 2007.

Executive management remuneration
Executive management is considered to consist of the CEO (who is also head of US operations), CFO and head of Brazil operations.

Executive management remuneration is summarized below:

(Amounts in USD 1 000)

Executive management remuneration 2007	Salary	Bonus	Benefits	Costs	Issued	Total
Øivind Risberg (CEO)	520	0	17	0	324	861
Anders Kapstad (CFO)	239	99	0	22	81	440
José Almeida dos Santos (Director Brazil)	278	23	0	0	64	365
Total Remuneration	**1 047**	**122**	**0**	**22**	**469**	**1 667**

Executive management remuneration 2006	Salary	Bonus	Benefits	Costs	Issued	Total
Øivind Risberg (CEO)	520	0	0	0	490	1 010
Anders Kapstad (CFO)	152	0	20	69	65	306
José Almeida dos Santos (Director Brazil)	290	0	0	0	141	431
Total Remuneration	**962**	**0**	**20**	**69**	**696**	**1 747**

The CEO has an agreement of two year's salary in case of resignation. The CFO participates in the general pension scheme established in the parent company. Refer to note 13 for details on the pension scheme. The company also has an employee options program, refer to note 12 for details.

The company has a long term note receivable from the CEO of USD 50 000. The note has no stated maturity date, is due on demand and bears an interest rate of Prime plus 0.5%.

Remuneration of members of the Board and committees of the Board is summarized below:

(Amounts in USD 1 000)

	Board fee		
Board of Directors	**2007**	**2006**	**2005**
Petter Mannsverk Andresen, Chairman (former Director)	64	23	14
Axel C. Eitzen, former Chairman	73	31	26
Joey S. Horn, Director	64	23	14
Lise Heien Langaard, Director	0	0	0
Øivind Risberg, Director and CEO	0	0	0
Jon-Aksel Torgersen, Director	64	23	35
Total	**265**	**100**	**89**

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 to the CEO mentioned above.

Auditor's remuneration
Sales, administrative and general expenses also include audit costs, tax services and consulting services from Ernst & Young (E&Y) Oslo, Houston, Rio de Janeiro and Vancouver, as set out in the table below:

(Amounts in USD 1 000)

Expensed costs E&Y (excl. VAT)	2007	2006	2005
Statutory audit and audit related services	1 056	811	209
Tax services	119	112	64
Consulting, other services	8	47	90
Total	**1 184**	**970**	**363**

NOTE 7 Tax

(Amounts in USD 1 000)

Income tax expense for the year	2007	2006	2005
Payable tax Norway	0	0	0
Payable tax Brazil	6 270	231	1 589
Payable tax USA	732	157	380
Payable tax Canada	888	0	0
Deferred tax Norway	0	0	0
Deferred tax Brazil	-15 423	-1 734	591
Deferred tax USA	-204	470	0
Deferred tax Canada	0	0	0
Net income tax expense	**-7 737**	**-876**	**2 560**

Deferred tax
Below is an analysis of deferred tax split per region.

Norway

	2007	2006
Tax assets from net operating loss carry forward	48 607	36 296
Taxable (-) / deductible temporary differences:		
Current Assets	0	0
Current Liabilities	0	0
Non-current Assets	2 916	1 138
Non-current Liabilities	-38	-23
Deferred tax assets not recognized	-51 486	-37 411
Net deferred taxes	**0**	**0**

The net tax loss carry forwards in Norway have unlimited duration. These tax loss carry forwards are related to the parent company Norse Energy Corp. ASA. The company is not recognizing any deferred tax asset due to uncertainty of whether any of the tax loss carry forwards can be utilized.

Brazil

	2007	2006
Tax assets from net operating loss carry forward	3 059	2 933
Taxable (-) / deductible temporary differences:		
Current Assets	0	1 422
Current Liabilities	-3 727	-366
Non-current Assets	-12 969	-30 045
Non-current Liabilities	-504	-3 417
Net deferred tax Liability	**-14 141**	**-29 473**

The tax loss carry forwards in Brazil have unlimited duration, however the amount that can be off-set towards the taxable gain for the year is limited to 30 % of the tax gain for the year. This is causing the operations in Brazil to have payable taxes even though the Brazilian companies have net tax loss carry forwards.

USA

	2007	2006
Tax assets from net operating loss carry forward	22 008	20 713
Taxable (-) / deductible temporary differences:		
Current Assets	27	806
Current Liabilities	804	-2 641
Non-current Assets	-21 400	-16 958
Non-current Liabilities	568	124
Deferred tax assets not recognized	-2 326	-3 218
Net deferred tax Liability	**-319**	**-1 174**

No tax assets were recognized, as tax loss carry forwards in the US have a limited duration of 20 years, and future utilization of the net operating loss carry forward can be restricted as a result of a previous change in control, making it uncertain how much of the net tax loss carry forward can be utilized. The tax liability recognized relates to state taxes in individual subsidiaries, which cannot be offset against tax assets in other subsidiaries.

Different tax regimes
The company has operations that are subject to taxation under various tax systems in different countries, and losses in one subsidiary in one country cannot be offset against a gain in a subsidiary in another country. A reconciliation of actual to calculated tax expense for the group is as a result difficult to perform and the information obtained from such a calculation difficult to analyze, and management has consequently decided not to include this reconciliation in the company's footnotes.

NOTE 8

Earnings per share and diluted earnings per share

Earnings per share
Earnings per share is calculated as the net profit for the year divided by the weighted average number of shares outstanding.

	2007	2006	2005
Net profit/(-) loss	-28 706 000	-12 377 000	1 949 000
Weighted average numbers of shares outstanding	352 555 925	350 472 749	246 000 000
Earnings per share	**-0.08**	**-0.04**	**0.01**

Weighted average numbers of shares outstanding has been reduced with 108 605 treasury shares.

Diluted earnings per share
When calculating the diluted earnings per share, the weighted average number of shares outstanding is adjusted for all the dilution effects relating to the company employee stock options and warrants.

As of December 31, 2007, there are 9 940 000 stock options granted of which 3 300 000 have vested. A total of 75 million warrants are outstanding at December 31, 2007. Since the company is presenting a net loss for the year, the calculations of the diluted earnings per share will not take into account the effect of the employee share options and warrants as these will give an anti-dilutive effect.

For details on the employee stock options, refer to note 12. For details on the bond loans with detachable warrants, refer to note 17.

NOTE 9

Intangible assets and property, plant and equipment

(Amounts in USD 1 000)

Licenses

Fiscal year 2007	Estrela-Do-Mar	Cavalo Marinho	Manati	BCAM-40	BM-CAL 5&6	Other	Total
Acquisition cost January 1, 2007	7 927	15 235	23 693	11 994	9 908	5 415	74 172
Acquisition of business	0	0	0	0	0	0	0
Transfer to field investments and equipment	0	0	-23 693	0	0	0	-23 693
Investments	0	0	0	0	0	2 265	2 265
Acquisition cost December 31, 2007	**7 927**	**15 235**	**0**	**11 994**	**9 908**	**7 680**	**52 744**
Foreign currency adjustment	0	0	0	2 320	378	0	2 698
Net book value December 31, 2007	**7 927**	**15 235**	**0**	**14 314**	**10 286**	**7 680**	**55 442**

Fiscal year 2006	Estrela-Do-Mar	Cavalo Marinho	Manati	BCAM-40	BM-CAL 5&6	Other	Total
Acquisition cost January 1, 2006	0	0	0	0	0	647	647
Acquisition of business	7 927	15 235	23 693	11 994	9 908	3 267	72 024
Investments	0	0	0	0	0	1 501	1 501
Acquisition cost December 31, 2006	**7 927**	**15 235**	**23 693**	**11 994**	**9 908**	**5 415**	**74 172**
Foreign currency adjustment	0	0	0	0	0	0	0
Net book value December 31, 2006	**7 927**	**15 235**	**23 693**	**11 994**	**9 908**	**5 415**	**74 172**

Undeveloped fields

Fiscal year 2007	Estrela-Do-Mar	Cavalo Marinho	BCAM-40	BM-CAL 5&6	Other	Total
Acquisition cost January 1, 2007	10 044	42 575	0	1 481	859	54 959
Reversal of abandonment cost	0	- 5 807	0	0	0	- 5 807
Acquisition of business	0	0	0	0	0	0
Investments	382	463	2 636	2 655	338	6 474
Capitalized interest	1 215	3 474	938	977	67	6 671
Assets held for sale	0	0	0	0	- 260	-260
Acquisition cost December 31, 2007	**11 641**	**40 705**	**3 574**	**5 113**	**1 004**	**62 037**
Foreign currency adjustment	0	0	1 111	527	0	1 638
Net book value December 31, 2007	**11 641**	**40 705**	**4 685**	**5 640**	**1 004**	**63 675**

Fiscal year 2006	Estrela-Do-Mar	Cavalo Marinho	BCAM-40	BM-CAL 5&6	Other	Total
Acquisition cost January 1, 2006	8 791	36 347	0	0	20	45 158
Abandonment cost incurred	0	2 613	0	0	0	2 613
Acquisition of business	589	376	0	0	0	965
Investments	198	1 618	0	1 435	822	4 073
Capitalized interest	466	1 621	0	46	17	2 150
Acquisition cost December 31, 2006	**10 044**	**42 575**	**0**	**1 481**	**859**	**54 959**
Foreign currency adjustment	0	0	0	0	0	0
Net book value December 31, 2006	**10 044**	**42 575**	**0**	**1 481**	**859**	**54 959**

Field investments and equipment

Fiscal year 2007	US Natural gas properties	US pipelines	Manati	Coral	Total
Acquisition cost January 1, 2007	54 814	28 447	59 325	61 572	204 158
Abandonment cost incurred	605	0	4 423	3 992	9 020
Investments	25 010	413	17 340	0	42 763
Transfers from licenses	0	0	23 696	0	23 696
Assets held for sale	-47 893	0	0	0	-47 893
Acquisition cost December 31,2007	**32 536**	**28 860**	**104 784**	**65 564**	**231 741**
Foreign currency adjustment	0	0	11 803	0	11 803
Accumulated depreciation and impairment	-15 242	-9 090	-6 090	-65 564	-95 986
Accumulated depreciation and impairment associated with assets held for sale	11 602	0	0	0	11 602
Net book value December 31, 2007	**28 896**	**19 770**	**110 494**	**0**	**159 160**
Depreciation and impairment 2007	-3 090	-875	-6 090	-44 209	-54 264

Fiscal year 2006	US Natural gas properties	US pipelines	Manati	Coral	Total
Acquisition cost January 1, 2006	37 220	26 255	0	57 898	121 373
Abandonment cost incurred	347	0	0	856	1 203
Acquisition of business	0	0	28 321	2 805	31 126
Investments	17 247	2 192	27 699	13	47 151
Capitalized interest	0	0	3 305	0	3 305
Acquisition cost December 31, 2006	**54 814**	**28 447**	**59 325**	**61 572**	**204 158**
Foreign currency adjustment	0	0	0	0	0
Accumulated depreciation and impairment	-12 152	-6 328	0	-21 355	- 39 835
Net book value December 31, 2006	**42 662**	**22 119**	**59 325**	**40 217**	**164 323**
Depreciation 2006	-2 189	-1 138	0	-11 435	-14 762

Other fixed assets

Fiscal year 2007	Total
Acquisition cost January 1, 2007	5 025
Investments	1 531
Acquisition cost December 31, 2007	**6 556**
Foreign currency adjustment	0
Accumulated depreciation and impairment	-2 097
Net book value December 31, 2007	**4 459**
Depreciation 2007	-887

Fiscal year 2006	Total
Acquisition cost January 1, 2006	1 650
Investments	3 375
Acquisition cost December 31, 2006	**5 025**
Foreign currency adjustment	0
Accumulated depreciation and impairment	-1 210
Net book value December 31, 2006	**3 815**
Depreciation 2006	-308

A total of USD 6.6 million was capitalised borrowing costs in 2007, which represents about 36 % of net borrowing costs. In 2006, the company capitalized borrowing costs of USD 5.5 million, representing about 53 % of net borrowing costs.

Depreciation method / rates
Capitalized costs for field investments and natural gas properties are depreciated in accordance with the unit-of-production method.

Depreciation for the gathering systems and the transmission lines are computed using the straight-line method over a period of twenty and thirty-year useful life, respectively.

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

The recoverability of amounts capitalized in connection with field investments depends on the existence of viable reserves, the company's ability to finance the necessary investments and future cash flows from production. No impairment charge was recorded in 2006. Per year-end 2007, the company has obtained annual reserve reports from Gaffney Cline & Associates for the Brazilian assets, and based on this reserve report, the company has carried out an impairment assessment in line with prior year's methodology. Based on the certified 2P reserves of 0.12 MMBOE, the company has decided to write-off the remaining book value of the field, requiring an impairment charge of USD 26.2 million.

NOTE 10

Goodwill and other intangible assets

The company booked goodwill of USD 5.6 million and other intangible assets of USD 0.2 million in 2006 after finalizing the purchase analyzes of the acquisition of Mid American on June 30, 2005. The goodwill is assumed to have duration as long as the Mid American operations are profitable. The value of the employee contracts is depreciated using straight-line depreciation over 7 years. The goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

Impairment testing was carried out per year-end 2007 and 2006, and resulted in no amortization. Key assumptions in this test were profitability of Mid American, evaluation of current and future customer base, employee base, further market conditions and the current 5-years budget prepared by management of Mid American.

(Amounts in USD 1 000)

Goodwill	2007	2006
Book value January 1	5 643	5 643
Acquired during the year	0	0
Adjustment to fair value calculation	0	0
Impairment	0	0
Net book value December 31	**5 643**	**5 643**
Accumulated impairment January 1	0	0
Accumulated impairment December 31	0	0

Other intangible assets	2007	2006
Book value January 1	183	238
Employee contracts acquired	0	0
Depreciation	-36	-55
Impairment	0	0
Net book value December 31	**147**	**183**
Accumulated depreciation January 1	-55	0
Accumulated depreciation December 31	-91	-55
Accumulated impairment January 1	0	0
Accumulated impairment December 31	0	0

NOTE 11 Financial instruments

Overview
The company's policy is to constantly monitor the risk associated with its floating interest loans, currency loans and the price for oil and gas, to assess the necessity to enter into financial instruments to limit the risk to the company and maximize income. As such, Norse Energy has entered into various hedging transactions. Refer to note 22 for details on the company's financial risk management policy.

The table below sets forth a comparison of carrying amounts and fair values of all of the company's financial instruments by category, including the fixed price contracts (derivatives) in the energy marketing division.

	Carrying amount		Fair value	
	2007	2006	2007	2006
Financial assets				
Cash and cash equivalents	43 747	55 740	43 747	55 740
Receivables:				
Trade accounts receivable (held at amortized cost)	37 094	20 950	37 094	20 950
Other derivatives (fair value through P&L)	3 781	8 122	3 781	8 122
Other short-term receivables (held at amortized cost)	2 648	3 224	2 648	3 224
Investment in equity accounted investees	1 734	0	1 734	0
Other non-current assets:				
Oil put options (fair value through P&L)	1	1 139	1	1 139
Shares in Biofuel Energy ASA (fair value through P&L)	1 478	0	1 478	0
Financial liabilities				
Trade accounts payable	-47 324	-45 327	-47 324	-45 327
Interest-bearing loans and borrowings:				
NEC01 unsecured bond loan (floating interest)	-54 689	-47 052	-55 376	-47 052
NEC02 unsecured bond loan (fixed rate)	-61 783	-59 094	-64 125	-59 094
NEC03 unsecured bond loan (floating interest)	-36 575	0	-36 962	0
Floating rate borrowings	-84 208	-22 885	-84 208	-22 885
Other fixed rate borrowings	-16 299	-54 419	-18 261	-50 923
Currency swap (fair value through P&L)	8 993	1 761	8 993	1 761
Own bonds in NEC02 (fair value through P&L)	1 136	1 070	1 136	1 070
Other non-current financial liabilities:				
NECJ warrants (fair value through P&L)	-20 098	-16 863	-20 098	-16 863
Forward contract Revus Energy ASA (fair value through P&L)	0	-1 241	0	-1 241
Other derivatives (fair value through P&L)	-1 922	-2 069	-1 922	-2 069

Trade accounts receivable are carried at amortized cost. Oil put options and currency swap are valued by external third parties and recognized at fair value. NEC01 and NEC02 are listed on the OSE, while NEC03 is listed on the Alternative Bond Market (ABM). The company's own bonds are presented net in the balance sheet with the NEC02 bond loan. The currency swaps are presented net in the balance sheet together with the unsecured bond loans NEC01 and NEC02. The fair value of the listed loans is calculated based on year-end market values and foreign currency rates. Fair value of interest-bearing loans with fixed interest is calculated as discounted cash flows with interest rate similar to our floating interest loans.

The carrying amount reflected above represents the company's maximum exposure to credit risk for the financial assets and liabilities.

(Amounts in USD 1 000)

	P&L impact	
	2007	2006
Financial assets		
Oil put options	-1 138	-1 821
Shares in Biofuel Energy ASA	1 469	0
Currency swaps related to NEC01 & NEC03	7 232	2 583
Own bonds in NEC02	65	-27
Financial liabilities		
NECJ warrants	-3 235	-2 416
Forward contract Revus Energy ASA	7 049	-1 241

Liquidity risk
The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements;

December 31, 2007

(Amounts in USD 1 000)

Non-derivative financial liabilities	TOTAL	0-1 month	1-3 months	3-12 months	1-3 years	3-5 years	More than 5 years
MNOK 300 bond loan (NEC01)	-72 075	0	0	-5 544	-66 531	0	0
MUSD 75 bond loan (NEC02)	-94 500	0	0	-4 875	-9 750	-79 875	0
MNOK 200 bond loan (NEC03)	-47 055	-918	0	-2 753	-43 385	0	0
Brazil loans	-86 118	-1 179	-2 188	-15 178	-40 676	-22 482	-4 415
US loans	-28 524	0	-14 152	-1 103	-7 464	-1 882	-3 922
AP and other payments	-40 990	-24 351	-8 911	-7 728	0	0	0
Total Non-derivative financial liabilities	**-369 262**	**-26 448**	**-25 521**	**-37 181**	**-167 806**	**-104 239**	**-8 337**
Derivative financial liabilities							
Currency swap realted to NEC01/NEC03							
NEC to pay Bank	-105 828	-3 389	0	-4 981	-97 458	0	0
Bank to pay NEC	119 441	856	0	8 456	110 128	0	0
MANR financial contracts							
Long contracts	-518	-307	-199	-12	0	0	0
Short contracts	1 222	574	563	174	-88	0	0
Nornew financial contracts	-466	58	62	-18	-569	0	0
Total Derivative financial liabilities	**13 851**	**-2 208**	**426**	**3 620**	**12 013**	**0**	**0**

December 31, 2006

(Amounts in USD 1 000)

Non-derivative financial liabilities	TOTAL	0-1 month	1-3 months	3-12 months	1-3 years	3-5 years	More than 5 years
MNOK 300 bond loan (NEC01)	-67 145	0	0	-4 796	-9 592	-52 757	0
MUSD 75 bond loan (NEC02)	-99 375	0	0	-4 875	-9 750	-84 750	0
Brazil loans	-117 257	-7 054	-3 205	-18 682	-42 699	-31 463	-14 153
US fixed interest loan	-9 815	0	-260	-773	-2 006	-1 923	-4 853
AP and other payments	-32 612	-17 064	-12 216	-3 332	0	0	0
Total Non-derivative financial liabilities	**-326 204**	**-24 118**	**-15 681**	**-32 459**	**-64 047**	**-170 893**	**-19 005**
Derivative financial liabilities							
Currency swap realted to NEC01							
NEC to pay Bank	-64 788	-2 531	0	-2 410	-9 896	-49 951	0
Bank to pay NEC	67 145	0	0	4 796	9 592	52 757	0
MANR financial contracts							
Long contracts	-3 303	-738	-956	-1 558	-51	0	0
Short contracts	5 652	724	1 197	3 362	369	0	0
Nornew financial contracts	1 634	152	221	402	431	428	0
Total Derivative financial liabilities	6 341	-2 393	462	4 593	446	3 234	0

In determining the maturity analysis above, the company has utilized the current spot rates at year-end 2007 and 2006 respectively. For the MANR and Nornew financial contracts, the cash flows projected from the long and short positions are calculated as the difference between the terms of each financial contract and the forward settlement prices at year-end 2007 and 2006.

Credit risk
The carrying amount of the company's financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

(Amounts in USD 1 000)

	Carrying amount	
	2007	**2006**
Cash and cash equivalents	43 747	55 740
Trade receivables	37 094	20 950
Derivatives	**12 775**	**11 022**
Total	**93 616**	**87 712**

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region and type of customer was;

(Amounts in USD 1 000)

	Carrying amount	
	2007	**2006**
Norway	**0**	**0**
Brazil		
Petrobras	8 550	1 876
Other	9 041	2 573
USA		
E&P	549	356
Pipeline	413	412
MANR wholesale customers	3 020	172
MANR retail customers	1 588	1 068
Total	**23 161**	**6 457**

MANR unbilled revenue of approximately USD 14 million in both 2007 and 2006 is not included in the analysis above. Accounts receivable in MANR are secured by guarantees of USD 18 million for five large wholesale customers, and credit quality is assumed as good across all divisions.

The aging of trade receivables at the reporting date was;

(Amounts in USD 1 000)

	2007		2006	
	Gross	Impairment	Gross	Impairment
Current receivables	22 981	0	6 316	0
Past due 0-30 days	3	0	6	0
Past due 31-120 days	77	0	9	0
Older than 120 days	100	51	126	51
Total	**23 161**	**51**	**6 457**	**51**

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

(Amounts in USD 1 000)

	2007	2006
Balance at January 1	51	51
Impairment loss recognized	0	0
Balance at December 31	51	51

Based on historic default rates, the company believes that the current allowance for doubtful accounts is adequate in respect of the relatively low number of trade receivables not past due or past due by up to 30 days.

Market risk
Currency risk
The company's exposure to foreign currency risk was as follows based on notional amounts;

(Amounts in USD 1 000)

	December 31, 2007		December 31, 2006	
	NOK	BRL	NOK	BRL
Cash and cash equivalents	3 834	4 777	3 714	7 209
Trade receivables	0	6 698	0	4 308
Bank loans	-92 404	0	-47 962	0
Trade payables	-6	-8 317	-1	-4 789
Gross balance sheet exposure	-88 576	3 159	-44 249	6 728

Note that the company has swapped the NOK loans that are creating the exposure above into USD as of year-end 2007.

The following significant exchange rates were applied during the year;

	2007		2006	
	Average rate	Reporting date rate	Average rate	Reporting date rate
Norwegian Kroner	5.8600	5.4110	6.4180	6.2551
Brazilian Real	1.9483	1.7713	2.1679	2.1350

A 10 % strengthening or weakening of the USD against the following currencies at December 31 would have increased (decreased) profit or loss before tax by the amounts shown below. The company has used a sensitivity rate of 10 % as this reflects the change in the USD/NOK and USD/BRL during 2007. This hypothetical analysis assumes that all other variables, including interest rates and commodity prices, remain constant.

(Amounts in USD 1 000)

	2007		2006	
	+10 %	-10 %	+10 %	- 10 %
USD vs NOK				
Cash	-349	426	-338	413
Loans	8 400	-10 267	4 361	-5 328
Currency swap	-9 567	11 693	-5 257	6 426
Net P&L effect	-1 515	1 852	-1 234	1 510
USD vs BRL				
Cash	-478	478	-721	721
Receivables	-670	670	-431	431
Payables	832	-832	479	-479
Net P&L effect	-316	316	-673	673

This sensitivity analysis is presented on a pre-tax basis. For a description of the currency swaps in place, refer to note 17.

Interest rate risk
Norse Energy is exposed to interest rate risk as entities in the group borrow money at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings and by using interest rate currency swap contracts.

A change in 100 basis points in interest rates at the reporting date would have increased (decreased) profit and loss before tax by the amounts shown in the table below. This analysis assumes that foreign currency rates and other variables remain constant.

(Amounts in USD 1 000)

	2007		2006	
	+ 100 bp	- 100 bp	+ 100 bp	- 100 bp
Cash	460	-460	557	-557
Floating interest loans	-1 208	1 208	-735	735
Currency swaps	166	-165	187	-185
Net P&L effect	- 583	584	10	-8

Commodity price risk
The company is exposed to fluctuations in the prices for oil and natural gas. To mitigate this risk, the company has acquired oil put options for a substantial part of the oil production in Brazil, and we have also entered into a long-term take-or-pay contract with Petrobras for the sale of natural gas from the Manati field.

In the US, the company has taken various steps to mitigate the commodity price risk. Norse Energy has entered into fixed price contracts for physical delivery of gas, as well as cash flow hedging for a part of our production in Appalachia.

1. Oil put options
Norse Energy has the following oil options in place:

- 1 put option for 500 barrels per day at a strike price of USD 50 for the period January 31, 2006 through December 2008, entered into in 2005.

- 1 put option for 500 barrels per day at a strike price of USD 50 for the period February 1, 2006 through January 31, 2009, entered into in January 2006.

These financial transactions are not physical, and not dependent on any production. The fair value of these put options are calculated by independent institutions based on NYMEX futures.

If the put options are "in the money" in the period (oil price below USD 50 per barrel), the options would be exercised and gain recognized in the profit and loss statement. If the options are not exercised, the value of the option is expensed in the profit and loss statement in the period. Per December 31, 2007, these options are not in the money and are subsequently not charged to equity as hedges.

2. Fixed price contracts with physical delivery
Norse Energy has entered into a fixed price contract for the physical delivery of 1 500 Mcf/day from November 2006 to October 31, 2008 (USD 6.35 per MMBtu). While this amount was sold forward and hedged at a fixed price, it relates to physical deliveries and is consequently not subject to IAS 39, and no fair value has been recognized on these transactions.

3. Cash flow hedging of natural gas production
In the US, the company has sold forward the following volumes of natural gas by using financial derivatives:

- 2008 An average of 36 667/Mcf per month at USD 8.38 per Mcf
- 2009 An average of 65 000/Mcf per month at USD 8.28 per Mcf
- 2010 An average of 60 000/Mcf per month at USD 8.03 per Mcf

Changes in the fair value of these hedging instruments meet the criteria for cash flow hedge accounting and are therefore recognized directly in equity, see note 16. The fair value of these forward sales is calculated by independent institutions based on NYMEX futures. Below is a roll-forward analysis showing both the changes in fair values, as well as the contracts that expired and were transferred from equity to profit and loss;

(Amounts in USD 1 000)

	2007	2006
Fair value of cash flow hedges at January 1	1 107	-2 609
Change in fair value during the year	-749	3 262
Fair value recognized in profit & loss during the year	-564	455
Fair value of cash flow hedges at December 31	**-206**	**1 107**

Marketing activity risk
The Energy Marketing division generates a margin via sales and purchases of physical volumes of natural gas. The majority of the fixed price purchase-contracts, both financial and physical, are balanced with fixed price sales-contracts, financial or physical. Consistent with corporate policy the only price exposure the company has on fixed price contracts to the NYMEX is restricted to less than 50 000 Dth at any time.

All open positions (financial hedging transactions as well as physical fixed price contracts) are recognized at fair value at year-end. The fair value of these transactions is calculated based on NYMEX futures and forward basis. The company recorded an unrealized loss for the 12 months ended December 31, 2007 of USD 1.8 million.

The following shows the mark-to-market value of outstanding contracts for future purchase and sale of gas and unrealized gain as of December 31, 2007:

	Dth	Market value (in USD 1 000)
Future purchases	7 985 539	-392
Future sales	-11 335 891	2 959
Basis reserve		-137
Mark-to-market value as of December 31, 2007		**2 430**
Mark-to-market value as of December 31, 2006		4 225
Net unrealized gain as of December 31, 2007		**-1 795**

The company had as of December 31, 2007, open contracts totaling 3 350 000 Dth (sales-contracts in excess of purchase-contracts) of which about 50 000 Dth have NYMEX risk. These open contracts are priced at NYMEX plus a basis differential. The existing efficient financial OTC and NYMEX based markets, mitigate the risk for price variations attributable to the NYMEX price. Accordingly the only price risk related to these open contracts is the risk for fluctuation of the basis differential. In the Energy Marketing Division's core market area, the basis differential varies between USD 0.10 and USD 0.40 depending on which pipeline the gas is traded on and the time of the year. Historically, this differential has varied very little between periods.

NOTE 12 Share-based payment plans

Norse Energy has an option program amounting to 10 million shares, approved by the Annual General Meeting on May 23, 2006. At the beginning of the year, 7.3 million of these options were granted to key employees, and as of December 31, 2007, 9.9 million options have been granted as follows:

	# of shares	Options price (in NOK)	Summary of exercising periods	Estimated value (USD 1 000)
Øivind Risberg (CEO)	4 000 000	4.04	June 1, 2007 - May 31, 2012	1 234
Anders Kapstad (CFO)	1 000 000	3.82	August 1, 2007 - June 29, 2012	241
Jose Almeida dos Santos	1 000 000	3.64	June 1, 2007 - May 31, 2010	277
Other Employees	3 940 000	3.89	February 18, 2008 - June 29, 2012	987
Total	**9 940 000**			**2 739**

A total of 3 300 000 options were vested and could potentially be exercised as of December 31, 2007. All options under the plan will be settled in shares.

The fair value of the options is estimated at grant date by an independent third party expert using the Black & Scholes – Merton option pricing model. The exercise price of the options is equal to the market price of the shares at the grant date, and the volatility is based on a calculated implied volatility of the warrants that the company issued and listed on OSE in July 2006. The expected exercise date is set to the contractual vesting period (ranging from 1.5 years to 2 years) plus two years for the CEO and one year for all other employees. Risk free rate is calculated by using rates from Norges Bank at grant date (bonds and certificates) based on the expected term of the option being valued.

The options are expensed over the vesting period, about USD 0.8 million in 2007, and the option price stated is a weighted average exercise price. The stock options outstanding at the end of the financial year had an exercise price between NOK 3.50 and NOK 4.75 (equivalent for 2006), and a weighted average remaining contractual life of 1 278 days and 1 516 days in 2007 and 2006, respectively.

No options were exercised in 2006 or 2007. Should the employee decide to terminate the employment prior to the start of the exercising period, the options would expire without any further compensation. A total of 24 out of 95 employees were granted options as of December 31, 2007.

NOTE 13 Pension and other post-employment benefit plans

Norse Energy does not have any pension plans in place for employees in Brazil and US.

The parent 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 established a pension scheme in 2006 that meet the requirements of that law. In June 2007, the company changed the pension scheme to a defined contribution scheme. Subsequent to this change, no pension liability is recognized in the balance sheet and an expense for the period June to December 2007 of USD 27 273 was booked under the new scheme.

The company's old pension scheme covered a total of 5 employees until it was dissolved in June 2007 and per December 31, 2006, it covered 2 employees. The table below sets out the pension liability recorded in the balance sheet.

(Amounts in NOK 1 000)

Pension cost	2007	2006	2005
Service cost	38	86	0
Interest cost	1	0	0
Return on pension plan assets	-1	-2	0
Amortization of deviation in estimate	15	0	0
P&L effect of one-time incidents	-22	0	0
Payroll tax	-1	4	0
Net pension cost	**30**	**88**	**0**

Amount recognized in the Balance Sheet	2007	2006	2005
Accrued pension obligation at period end	0	43	0
Estimated effect of future salary increases	0	20	0
Estimated pension obligation at period end	0	63	0
Pension plan assets (at fair value) at period end	0	54	0
Unrecognized effects of actuarial gains/losses	0	17	0
Payroll tax	0	4	0
Net benefit obligations	**0**	**30**	**0**

Movement in the recognized liability	2007	2006	2005
Liability at beginning of period	30	0	0
Total expense charged in the income statement	30	88	0
Adjustment for change in pension plan	-18	0	0
Contributions paid	-42	-58	0
Balance period end	**0**	**30**	**0**

Actuarial assumptions	2007	2006	2005
Discount rate	4.4%	4.4%	0
Wage growth	4.5%	4.5%	0
Yield on pension assets	5.4%	5.4%	0
Average turnover	5.0%	5.0%	0

The actuarial assumptions are based on assumptions of demographical factors normally used within the insurance industry and are in line with current recommendations provided by the Norwegian Accounting Standards Board.

NOTE 14 Inventory

As of year-end, inventories consist of the following:

(Amounts in USD 1 000)

	December 31, 2007	December 31, 2006
Crude oil, Brazil	3 051	3 237

No parts of inventories have been pledged as security for liabilities.

NOTE 15 Cash and cash equivalents

Included in Cash and Cash Equivalents are USD 0.11 million and USD 0.05 million related to tax deductions for wages in Norway, and USD 3.9 million and USD 2.9 million (fixed until maturity) as cash collateral for a currency swap (see note 17) as of December 31, 2007 and 2006 respectively. As of year-end 2007, USD 1.5 million is restricted cash to enable the company to do business on certain pipelines, and USD 0.8 million is restricted cash for purchase of gas. At year-end 2006, USD 10.1 was restricted cash related to the share purchase of Revus Energy ASA.

Included in Other Non-Current Assets are about USD 5.7 million and USD 1.1 million restricted cash to Unibanco as of December 31, 2007 and 2006, respectively, related to payment of installments of outstanding long-term debt (see note 17). In addition, USD 5.8 million and USD 2.6 million is restricted cash to cover part of the ARO liability for Coral as of December 31, 2007 and 2006, respectively.

Coplex has a bank overdraft facility of approximately BRL 2.5 million as of December 31, 2007 and BRL 3.5 million as of December 31, 2006, with BRL 0 and BRL 0.3 million drawn down as of December 31, 2007 and 2006, respectively. Norse Energy do Brasil has a bank overdraft facility of approximately BRL 2.0 million as of December 31, 2007 with BRL 0.9 million drawn down as of December 31, 2007. Rio das Contas has a bank overdraft facility of approximately BRL 3.0 million as of December 31, 2007 with BRL 0 drawn down as of December 31, 2007.

Norse Energy USA has a revolving credit line of USD 30 million as of December 31, 2007 (USD 14.7 million as of December 31, 2006) whereof USD 19.2 million and USD 0 was drawn down as of December 31, 2007 and 2006, respectively. USD 1.4 million and USD 2.1 million was used for issuing Letter of Credits as of December 31, 2007 and 2006, respectively, reducing the availability under the credit line accordingly.

NOTE 16 Issued capital and reserves

For the year ended December 31, 2007;

(Amounts in USD 1 000)

	Nominal share capital	Share premium reserve	Treasury shares	Retained earnings	Other equity	Total
At January 1, 2007	**43 526**	**76 983**	**-14**	**-16 858**	**1 578**	**105 215**
Cash flow hedges, amount recognized in income	0	0	0	0	-564	-564
Cash flow hedges, amount recognized in equity	0	0	0	0	-749	-749
Employee share options	0	0	0	0	768	768
Currency translation and other adjustments	0	0	0	-41	7 499	7 458
Net loss for the year	0	0	0	-28 705	0	-28 705
Total income and expenses for the year	0	0	0	-28 746	6 954	-21 792
At December 31, 2007	**43 526**	**76 983**	**-14**	**-45 604**	**8 532**	**83 423**

Outstanding shares
As of year-end 2007 a total of 352 664 530 shares were outstanding, with a nominal value of NOK 0.88 per share.

	Ordinary shares 2007	Ordinary shares 2006
On issue at Janaury 1	352 664 530	320 664 530
Issued for cash	0	32 000 000
Exercise of share options	0	0
On issue at December 31	**352 664 530**	**352 664 530**

Norse Energy has issued a bond loan of USD 75 million with 75 million associated warrants giving the right to new ordinary shares at NOK 6.10 per share. For details on the bond loan, refer to note 17. For details on how the warrants impact the diluted earning per share, refer to note 8.

Dividends
No dividends (equity dividends and dividends of subsidiary) were paid in 2007.

Treasury shares and share based payments
The company currently owns 108 605 treasury shares. The Annual General Meeting has authorized management to purchase up to 35 266 453 treasury shares.

For details on the company's share based payments, refer to note 12.

Cash flow hedges
The cash flow hedges relates to hedges entered into by the US E&P division.

Currency Translation Adjustment
The currency translation adjustment relates to Norse Energy's subsidiaries in Canada and Brazil.

NOTE 17 Interest bearing debt

Below is a summary of the company's interest bearing debt as of December 31, 2007;

Loan description:	Interest rate	Repayment date	Amount due in USD Within 1 year	After 1 year	Total	Cur-rency
Norway - NOK 300 million bond loan *	10 %/10.89 % fixed	7/13/2010	0	45 920	45 920	NOK
Norway - USD 75 million bond loan **	6.5 % fixed	7/14/2011	0	60 647	60 647	USD
Norway - NOK 200 million bond loan ***	3-mo NIBOR + 4.25 %	7/6/2010	0	36 351	36 351	NOK
Brazil	Libor + 5.5 %	10/15/2010	6 667	0	6 667	USD
Brazil	Libor + 4.75 %	10/15/2010	6 667	0	6 667	USD
Brazil	9.55 % fixed	10/13/2012	0	4 900	4 900	USD
Brazil	9.55 % fixed	10/13/2012	0	4 900	4 900	USD
Brazil	Libor + 4.65 %	12/05/2011	932	2 796	3 728	USD
Brazil	Libor + 4.65 %	12/28/2011	987	2 960	3 947	USD
Brazil	5.3 % - 6.8 % + TJLP	10/15/2013	7 731	36 186	43 918	BRL
USA	4.25 % imputed interest	9/30/2015	6 499	0	6 499	USD
USA ****	Prime +/- margin	1/1/2009	19 282	0	19 282	USD
Total Loans			**48 765**	**194 660**	**243 426**	

* The NOK 300 million loan is presented net of the value of the currency swap in place.
** The USD 75 million loan is shown net of the value of own bonds held.
*** The NOK 200 million loan is presented net of the value of the currency swap in place.
**** The US loan carries a margin that fluctuates with the company's utiliztion of the credit line.

The interest rate presented in the table for the NOK 300 million bond loan and the USD 75 million bond loan are the contractual rates, not the calculated interest rate under IFRS where amortized cost and implied interest is included.

Certain loans are classified as short-term debt as of December 31, 2007, as the company was not in compliance with all financial covenants and the waivers obtained does not meet the IFRS requirements in order to keep the loans classified as long-term debt. See further details below.

Norway financing

NOK 300 million bond loan
The company issued a 5-year senior unsecured bullet bond loan with an annual coupon of 10 % in 2005, with a total credit line of NOK 300 million. NOK 200 million was issued on July 13, 2005, and NOK 100 million was issued in November 2005. The loan will mature on July 13, 2010, and is listed on the Oslo Stock Exchange (OSE) under the ticker "NEC01". Norsk Tillitsmann ASA ("Norwegian Trustee") is representing the various bond holders.

Per year-end 2005, the company held own bonds totaling NOK 43 million. These bonds were sold during 2006, and as of year-end 2007 the company does not hold any own bonds.

Late November 2005 Norse Energy swapped NOK 250 million into USD 37.5 million at exchange rate NOK/USD 6.665 at a 5-year fixed rate of 10.89 %. Norse Energy will receive 10 % on NOK 250 million annually from Nordea until maturity in July 2010. Norse Energy is obliged to pay Nordea 10.89 % on USD 37.5 million biannually until maturity in July 2010. The company has also swapped the remaining NOK 50 million of the bond loan to USD at exchange rate NOK/USD 6.671 at a floating interest. The transaction required a USD 2.5 million deposit (fixed until maturity) and any upward movement NOK/USD and/or LIBOR rates will trigger extra margin calls. A fall in USD/NOK and/or LIBOR rates will relieve the company of less margin calls. Per December 31, 2007, the deposit totaled USD 3.0 million. The effective interest on the bond loan is slightly higher than the coupon of 10 % as the related transaction costs are amortized over the life of the bonds.

The swap transaction is fair value adjusted each quarter, and any fair value adjustment is booked towards profit and loss. Per year-end 2007 the fair value of the currency swap was USD 8.8 million compared to USD 1.7 million per year end 2006, resulting in an impact on the income statement for the year of -USD 7 million. The value of the currency swap reduces the carrying value of the bond loan.

The main covenants for the bond loan are as follows:
- Maintain book equity of minimum USD 50 million in the parent company.
- Within a calendar year from when the loan was issued, Norse Energy cannot make any dividend payments; shares repurchases, or make any other distributions that constitutes more than 50% of net profits after taxes.
- Total equity shall constitute at least 30% of "Capital employed" in the parent company. "Capital employed" is defined as Norse Energy's total equity plus interest bearing debt, including financial instruments that have the commercial effect of borrowing, including guarantees and leasing commitments.

USD 75 million bond loan
On July 13, 2006 the company issued 50 000 bonds at a nominal value of USD 1 000 per bond for a total of USD 50 million and on November 30, 2006 another 25 000 bonds was issued at a nominal value of USD 1 000 per bond, bringing the total bond loan to USD 75 million. The bonds mature on July 14, 2011, and are listed on OSE under the ticker code "NEC02". The bond loan is unsecured and carries a fixed interest rate of 6.5 %. Effective interest is about 12 % as the value of the warrants and the transaction costs are amortized over the life of the bonds.

Each bond subscriber was allotted 1 000 warrants per bond free of charge. Each warrant gives the holder the right to subscribe for one new share in the company at an exercise price of NOK 6.10 per share. The warrants are listed separately on OSE under the ticker code "NECJ".

(Amounts in USD 1 000)

Amortization and mark to market adjustment	Tranche 1	Tranche 2	Total
Long-term loan element	38 221	19 832	58 053
Amortization 2006	836	209	1 045
Amortization 2007	1 853	840	2 693
Long-term loan element December 31, 2007	**40 910**	**20 881**	**61 791**
Warrant component initial recognition	- 9 600	- 4 847	- 14 447
Mark to market adjustment 2006	- 1 591	- 748	- 2 339
Mark to market adjustment 2007	- 2 207	- 1 104	- 3 311
Warrant component fair value December 31, 2007	-13 398	- 6 699	- 20 097

In addition to the long-term loan element above, approximately USD 2.5 million is accrued interest for the loan. This is classified as short term.

IAS 39 requires that the proceeds from the issue of the bond loans are split between the long term loan element and the embedded derivative – in this case the fair value of the option to convert to shares (the warrant). The long term loan element is amortized to the full value of the loan (USD 75 million) over the life of the loan, based on the effective interest method. As USD is the functional currency of Norse Energy Corp. ASA and the warrants are denominated in NOK, IFRS requires that the warrants are recorded as a liability – not as a component of equity.

At each reporting date, any change in the fair value of the warrants is recorded in the income statement based on the price of the NECJ warrants. An increase in the fair value of the warrant will cause a charge to the income statement and a corresponding increase in the liability. A drop in the warrant price will lead to the opposite. In 2007, the company recorded a negative fair value adjustment of USD 3.3 million in the profit and loss statement due to the increase in the warrant price from issuance until year-end. However, it is important to notice that this liability in no instance will affect the total loan to be paid to the loan holders at the maturity date.

At December 31, 2007, no warrants were converted to shares. The company holds own bonds totaling USD 1.1 million per year-end 2007.

NOK 200 million bond loan
On June 29, 2007 the company raised NOK 100 million in a 3-year bond issue yielding 3 months NIBOR plus a margin of 4.25 %. Another NOK 200 million can be drawn, and on August 14, 2007 the company raised another NOK 100 million under this facility at the same terms. The bond issue is unsecured and it is listed on the Alternative Bond Market (ABM) as "FRN Norse Energy Corp. 07/10 CALL".

Norsk Tillitsmann ASA ("Norwegian Trustee") is representing the various bond holders.

During November 2007, Norse Energy swapped the NOK 200 million into USD 36.7 million at average exchange rate NOK/USD 5.450 at a floating interest rate of 3 months LIBOR + a margin of 4.40 %. Norse Energy will receive 3 months NIBOR + 4.25 % quarterly from Nordea until maturity in July 2010. Norse Energy is obliged to pay Nordea 3 months LIBOR + 4.40 % quarterly until maturity in July 2010. The transaction required a USD 0.9 million deposit (fixed until maturity) and any upward movement NOK/USD and/or LIBOR rates will trigger extra margin calls. A fall in USD/NOK and/or LIBOR rates will relieve the company of less margin calls. Per December 31, 2007, the deposit totaled USD 0.9 million.

The swap transaction is fair value adjusted each quarter, and any fair value adjustment is booked towards profit and loss. Per year-end 2007 the fair value of the currency swap was USD 0.2 million. The value of the currency swap reduces the carrying value of the bond loan.

The main covenants for the bond loan are the same as the NOK 300 million bond loan.

Brazil financing

In January 2006, Norse Energy Corp. ASA's subsidiary Coplex entered into two financing agreements through an on-lending transaction in U.S. Dollars for the development and production of natural gas in the Manati field in the amount of BRL 45.5 million. The loans are payable over 72 months, and mature on October 15, 2010. The interest rates are LIBOR plus 5.5 %. On December 31, 2007, the total balance of these two obligations was USD 13.3 million.

In November 2006, Norse Energy Corp. ASA's subsidiary Rio das Contas entered into a credit agreement for investment in production and transport of natural gas and condensate from the Manati field in the amount of BRL 82.7 million. The amount was divided into four tranches; (i) BRL 6.7 million; (ii) BRL 60.2 million; (iii) BRL 1.6 million; and (iv) BRL 14.2 million. Tranches (i) and (ii) are amortized over 72 months, and carry an interest rate of currency basket or TJLP plus a fixed rate. Tranches (iii) and (iv) are amortized over 51 months, and also carry an interest rate of either a currency basket or TJLP plus a fixed rate. On December 31, 2007, the balance of this obligation was USD 43.9 million.

In April 2007, the company entered into a loan agreement through an on-lending transaction in USD, at the amount of BRL 19.9 million, for the acquisition of interest in the Cavalo Marinho and Estrela do Mar fields. The loan is payable over 66 months, and matures in October 2012. The interest is fixed at 9.55 %. On December 31, 2007, the balance of this obligation was USD 9.8 million.

In July 2007, Rio das Contas entered into loan agreements through an on-lending transaction in USD at the amount of BRL 14.5 million, for the development of natural gas and condensate in the Manati field. The loans are payable over 53 months, and matures in December of 2011. On December 31, 2007, the total balance of these two agreements was USD 7.6 million.

The additional main loan conditions includes pledging of oil production and its associated cash flow to one of the financial institutions, keeping an equity ratio in Coplex at a minimum of 30 %, and maintaining a debt service coverage ratio in excess of 1.4. Further, it is a condition that Coplex maintains its license rights in Brazil. The agreements also have cross default covenants, meaning that any default of other material agreements for Coplex will lead to a default under these loan agreements. The company was in compliance with the loan covenants as of year-end with exception of the USD 13.3 million loan in Coplex for which a waiver was obtained. This loan has been reclassified to short-term debt in line with IFRS requirements.

USA financing

Revolving credit line
On September 10, 1999, the company entered into a credit agreement with a financial institution. In February 2003, the the financial institution increased the credit agreement's borrowing base to USD 12.1 million and in November 2004 the base was increased to USD 14.7 million. In October 2007, the base was increased further to USD 30 million. As part of the amendment, Norse Energy Corp. ASA's subsidiary Nornew entered into a Security Agreement with the bank, whereby the bank has a security interest in all assets of Nornew.

The credit agreement carries an interest of prime less 0.25 % if utilization is less than 25%, prime less 0.125 % if utilization is equal to or greater than 25 % but less than 50 %, prime if utilization is equal to or greater than 50 % but less than 75 % and prime plus 0.125 % if utilizations greater than 75 %. The loan is collateralized by certain natural gas properties and the south Jamestown Gathering System. The credit agreement matures on January 1, 2009. The monthly borrowing base reduction is zero. As of December 31, 2007, outstanding under the credit agreement was USD 19.3 million and the company had issued Letters of Credits amounting to USD 1.4 million, reducing the availability under the credit line.

The credit agreement requires the company to maintain certain financial covenants. As of December 31, 2007, the company was not in compliance with certain covenants. A waiver for this was obtained; however, as the grace period did not extend beyond 12 months after the balance sheet date, the loan has been reclassified to short-term debt. The credit agreement also includes restrictions as to payment of dividend, or other kind of distribution for payment of inter-company debt, further indebtedness or contingent liabilities, further encumbrances, sales of assets, investments, corporate restructuring, transactions with affiliates, engagement in other parts of business, change of ownership of the borrowers as well as further lending from the borrowers. The credit agreement includes normal default provisions, including a cross-default provision related to other defaulted agreements in excess of USD 50 000.

The outstanding balance per December 31, 2007, was fully repaid in March 2008 upon final closure of the divestment of the Medina field assets. The borrowing base was USD 5.5 million following this divestment.

Norse Pipeline Note
In conjunction with the acquisition of the Norse Pipeline system in June 1999, the company entered into a financing agreement with Colombia Gas Transmission Corporation for USD 18.8 million. This financing agreement was restructured in December 2002. The face amount of the restructured financing agreement was USD 11 million with a stated interest rate of 5 % on USD 6.3 million of the balance and 0 % on USD 4.7 of the balance. The effective interest rate on the USD 11 million face value was approximately 1 %. As the restructured debt was issued at a below-market interest rate, the company determined the fair value of the debt to be USD 9.6 million per December 31, 2002 by imputing interest at 4.25 %. The loan is subject to quarterly repayments and matures September 30, 2015.

The financing agreement is secured by the Norse Pipeline system assets.

As of December 31, 2007, USD 6.5 million was booked as outstanding under the note.

The financing agreement requires Norse Pipeline to not declare or pay any dividend or distribution, nor acquire for value, any shares of its stock; nor pay any bonuses to directors, managers, officers or employees; nor make any payment, whether principal or interest on any intercompany debt, excluding payments to reduce principal arising after the date of the loan. As of December 31, 2007, the company was not in compliance with all covenants, and a waiver was obtained. However, as the waiver was only valid until March 31, 2008, the loan has been classified as short-term debt in line with IFRS requirements.

NOTE 18 Asset retirement obligations

In accordance with 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 the reconciliation of the beginning and ending aggregate carrying amount of the obligation associated with the retirement of oil and gas properties:

(Amounts in USD 1 000)

Asset Retirement Obligation	2007	2006
At January 1,	10 640	6 673
Liabilities acquired	0	3 478
Liabilities incurred during the year	5 028	442
Additional liability, the Coral field	3 993	0
Reversal of liabilities during the year	-5 807	0
Liabilities associated with assets held for sale	-1 287	0
Accretion expense	65	47
At December 31,	**12 632**	**10 640**

The value of the asset retirement obligations booked in Brazil of USD 12.5 million is based on an appraisal report prepared by Petrobras' (the operator of the Coral field) engineers according to the Brazilian Petroluem Agency's (ANP) regulations. In January 2007, when production started from the Manati field, the company booked asset retirement obligations of USD 4.4 million based on an appraisal report prepared by Petrobras (Operator). Asset retirement obligations for US gas fields amounted to USD 1.4 million per year-end.

Beginning early 2006, the partners in the Coral Consortium agreed to deposit funds monthly to a restricted bank account, to cover the expected decommissioning costs for the Coral field. The amount required to be deposited is calculated quarterly based on the proportion of produced reserves compared to remaining proven plus probable reserves. As of December 31, 2007, the company has deposit USD 5.8 million to cover the abandonment liability.

NOTE 19 Guarantees and pledges

Norse Energy has provided a performance guarantee to the Brazilian petroleum directorate ANP, in terms of which the company is liable for the commitments for Coral, Estrela-do-Mar, Cavalo Marinho, BCAM-40, BM-CAL 5 & 6, BT-REC 22 & 30 and Sardinha licenses in accordance with the given concessions for the licenses.

Norse Energy is liable for any default by the other partners in the consortiums, via the participation in the joint operating agreements.

All shares in Coplex and Rio das Contas have been pledged to two banks as collateral for the engagement in Brazil. In reality this means that most of the company's Brazilian assets are pledged to these two banks.

In accordance with the loan agreements with one of the lenders, the oil and gas production and the associated cash flow are pledged to this financial institution. The oil produced from Cavalo Marinho Field is pledged to one of the lenders.

The parent company has provided guarantee letters for certain loans that its subsidiaries have in Brazil, totaling USD 21 million. Furthermore, the parent company and Norse Energy Corp. USA have provided certain guarantees and letters of credit on behalf of Mid American Natural Resources in the amount of USD 0.6 million and USD 1.1 million, respectively.

NOTE 20 Other commitments

The company has a lease commitment through the consortium operator until March 2010 for Atlantic Zephyre, the offshore drilling rig currently in place on the Coral field, and Avare, a storage tanker. The day rate for Atlantic Zephyre is USD 45 000 and for Avare it is USD 17 000, total USD 21 700 to the company's 35 % interest.

In Brazil, Norse Energy pays a royalty of 8.5 % to the Brazilian State. In addition, there is a 9.25 % tax on the Gross Revenues (PIS and COFINS), except for Coplex Coral sales for which tax is 3.65 % on Gross Revenue. For natural gas sales in the domestic market, the company pays an additional tax on the Circulation of Merchandise and Service, or ICMS, at a rate of 12.00 % based on total gross revenues.

In the US the company is leasing the land where natural gas is being produced. Such leasing contracts are entered into before drilling of the wells start, and should the drilling fail to find any producible gas; the leasing contract can in most cases be immediately terminated. However, if gas is found, the lease is converted to royalties. The company typically pays a 12.5 % royalty of gross revenue from natural gas production to the landowners in the US, where the land is leased, and is valid for as long as the commercial production lasts.

NOTE 21 Related parties

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

Norway
The parent company leases offices spaces from Eitzen Holding AS – a company controlled by Axel C. Eitzen, the largest shareholder as of year-end and former chairman of the Board of Norse Energy. For 2007 the company was invoiced USD 111 000 in lease expenses (including utilities), and per year-end no outstanding liabilities were recorded. For 2006, the lease expense was USD 73 000. The company also leased a parking space from the CEO for NOK 1 500 per month, equaling approximately USD 3 000 and 2 000, in 2007 and 2006 respectively.

In early 2007, the company received 200 000 shares in Biofuel Energy ASA as payment for services rendered. The chairman of the Board in Norse Energy, Petter Mannsverk Andresen, was also the former CEO of Biofuel Energy ASA.

In 2006, MarchFirst AS, where Petter Mannsverk Andresen is a partner, invoiced the company about USD 40 000 for various consultancy services. Per year-end no outstanding liabilities were recorded. Also, Greylock Management AS, owned by Norse Energy's Board Director Joey S. Horn, invoiced the company about USD 4 000 for various consultancy services during 2006. Per year-end, no liabilities were recorded. There were no transactions with MarchFirst or Greylock Management in 2007.

Brazil
Jose Almeida dos Santos, the head of the Brazilian operations owns 2.15 % of Starfish Oil and Gas SA (Starfish). Norse Energy acquired in 2006 a 7.5 % interest in Coral, Estrela-do-Mar and Cavalo Marinho fields from Starfish for USD 17.5 million, of which payment of USD 3 million is conditional to performance of the fields. For further details on this purchase, refer to note 2. In addition, the company owns interests in two onshore blocks in BT-REC-22 and BT-REC-30 where Starfish is the operator.

USA
During 2007, Synchronnection invoiced Norse Energy USD 63 593 for successbased, non-exclusive recruiting services provided. Synchronnection is a company owned by Adria Czerewaty, who is the wife of Øivind Risberg, Norse Energy's Director and CEO. At year-end no outstanding liabilities were recorded. For 2006, the company was invoiced USD 20 700 for services rendered from Synchcronnection.

Norse Energy's subsidiary Norse Pipeline, LLC has a lease agreement for office space with John Gravanda, President of the G&T division until June 2007. For 2007 Norse Pipeline was invoiced a total of USD 8 843 in lease expenses, while in 2006 Norse Pipeline and MANR were invoiced USD 39 071 in lease expenses. The lease expires June 30, 2010.

NOTE 22 Financial risk management

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

Financial risk management is carried out by employees in the parent company Norse Energy Corp. ASA in Oslo under policies approved by the Board of Directors. Management of Norse Energy Corp. ASA identifies, evaluates and hedges financial risks in close cooperation with the operating units in Brazil and USA. The Board of Directors reviews these written principles for overall risk management and the policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, as well as investment of excess liquidity.

Norse Energy manages its capital to ensure that the company will be able to continue as a going concern while maximizing the return to shareholders through optimizing the balance between debt and equity. The company aims to secure long-term financing in diversified capital markets in order to avoid dependency on a single market or financial institution. The company also seeks to have certain flexibility as timing of projects in both Brazil and the US can vary greatly. The current financial structure of the company should provide the flexibility necessary to respond to the capital needs when business opportunities occur.

The equity ratio at the end of 2007 was approximately 19 % compared to 26 % at the end of 2006. For details on the company's equity, refer to note 16, and for details on interest bearing debt, refer to note 17. There were no significant changes in the company's approach to capital management during 2007 or 2006.

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

Liquidity risk
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 flexibility in funding by maintaining availability under committed credit lines and through the bond market. In addition, management obtains funding through reserve based lending in the US.

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

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

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

The credit risk of the buyer of the oil and natural gas in Brazil (Petrobras) to default on the payment is considered to be very low. The credit risks for the sale of natural gas, and sale and purchase of natural gas via the subsidiary Mid American Natural Resources and from the US G&T Division is similarly considered to be low, as historically the amount of default of receivables has been very low and the company has implemented routines to screen the customers. The company has secured significant guarantees from customers of Mid American.

Market risk
Foreign exchange risk
The company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Norwegian Kroner (NOK), the US dollar (USD) and the Brazilian Reais (BRL). Management has set up a policy where group companies are required to manage their foreign exchange risk against their functional currency. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the entity's functional currency.

The company has investments in foreign operations, whose net assets are exposed to foreign currency translation risk. However, the company has obtained loans in BRL to mitigate the currency risk arising from the subsidiaries net assets.

The company uses cross currency interest rate swaps to hedge the forward foreign currency risk associated with certain foreign currency denominated bond loans, all in NOK. The company's policy is to hedge all loans denominated in NOK except working capital for headquarters in Norway. Currently, the company has fully hedged all NOK loans using forward contracts that mature on the same dates that the loans and interest are due for repayment.

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

To manage interest rate risk, management retains a proportion of fixed to floating rate borrowings within limits approved by the Board of Directors. We will achieve this through obtaining a mix of fixed and floating rate term debt, and by entering into interest rate swaps.

Commodity price risk
The nature of the company's industry is subject to considerable price volatility, over which we hold little control, and a material decline in commodity prices could result in a decrease in our production revenue. To manage this risk, we strive to keep a balance between fixed and floating price contracts.

OIL
The company currently only has oil production in Brazil. Due to the volatility in the oil production volumes in recent periods, it is the company's policy not to sell any oil forward. Instead, oil put options that provide a floor for the price of oil sold in Brazil is deemed an appropriate risk management tool. It is company policy that oil put options should be considered for a part of the expected production volumes.

Estimated production volumes and the level of exposure is monitored closely by management on a regular basis. Any changes to the level of exposure shall be approved by the BOD.

NATURAL GAS
The Group has natural gas production both in Brazil and in the US.

In Brazil, a fixed price contract, which is adjusted annually for inflation and with price renegotiation in three years, has been established with Petrobras. This take-or-pay contract has a term related to minimum and a maximum volume produced. As Petrobras is deemed as a higher creditworthy customer, no further risk management measures are deemed necessary for the natural gas production in Brazil.

In the US, the company's natural gas production is subject to market price fluctuations. As operator for most all the US gas production, the company is also the seller of most all our production. The company's gas production is not exposed to significant production interruptions outside of the potential freeze ups wintertime or when interstate pipelines, which we transport most all our production, are down for maintenance or we have compression downtime as most of the gas production requires compression for sale.

Due to limited historical downtime, most all our US gas production is therefore deemed acceptable to use fixed price forward sales contracts to secure certain profits level. These forward contracts can be either physical or financial derivative based. Historically the company has been using both the physical and financial markets to secure some of its future production. In general the Company has a policy to hedge not more than 60 % of proven production, which could be increased to 80% in more special circumstances. Currently any hedging is subject to Board of Directors approval.

Marketing activity risk
Our Energy Marketing division generates a margin through sales and purchases of physical volumes of natural gas. The majority of the fixed price purchase-contracts, both financial and physical, are balanced with fixed price sales-contracts, financial or physical.

Other price risk
The company is exposed to equity securities price risk because of investments held by the company and classified on the consolidated balance sheet as non-current assets at fair value through profit or loss.

At year-end 2007, the company only invested in one such company – Biofuel Energy ASA. Upon initial recognition, this investment was designated by Norse Energy as at fair value with adjustments going through P&L. Our CEO has been instrumental in the rendering of the services to which Norse received the shares in the first place, and our Chairman of the Board is also the CEO of Biofuel Energy ASA. In other words, our senior management and BOD are evaluating the performance of this investment closely, and our ownership is defined as a strategic investment.

The shares of Biofuel Energy ASA are traded over-the-counter (OTC), and are as such not traded regularly. However, there are several recent significant public offerings carried out. Independent investors have participated in these public offerings, and the share price used in these offerings is determined as a reliable estimate for the value of each share.

At the present time, such investments are not significant and no specific measures (like portfolio diversification) have been taken. Risk management procedures will be put in place on request from the BoD when deemed necessary.

NOTE 23 Legal proceedings

Legal proceedings as of year-end 2007

Brazil
The Association of Petrobras Engineers (AEPET) filed a lawsuit against ANP and all companies that bid on concessions in the ANP 3rd Round. The purpose of this lawsuit was to annul the 3rd Bid Round as well as all the concession contracts signed as a result of this bid round. Since the company's subsidiary Morro do Barro acquired the concessions in BM-CAL 5 & 6 that was granted to Petroserv in this bid round, the company was summoned to reply to the lawsuit. The company evaluates the risk related to this law suit to be remote as the arguments used to annul the 3rd Bid Round and signed concession contracts are inconsistent, and are against previous jurisprudences of the Court of the State of Rio de Janeiro. No accrual has been made related to this lawsuit.

The company's subsidiary Rio das Contas is a party in a lawsuit filed by the Fishermen Association in the Manati Project region demanding for indemnification for environmental damages as a result of alleged non-implementation of the compensatory measures established on the Environmental studies and reports part of the Environmental Licensing Process. There was a subsidiary request for an injunction to suspend the activities of implementation of the platform, pipeline and all infrastructure related to the project, which was not granted by the Court. The company evaluates the risk associated with this law suit as remote since the basic argument is that the implementation of the Manati project has caused environmental damages, but throughout the petition there was no indication of a concrete damage. The issuance of the IBAMA Operation License further strengthens the company's case. No accrual has been made related to this lawsuit.

We are party to one administrative proceeding at the tax level, which on December 31, 2007, totaled R$ 2.2 million. This proceeding refers to the payment on the Social Integration Program (PIS) and Social Securities on Revenues (COFINS) levied on the financial revenues. Based on the opinion of our legal advisors, we believe the risk of loss is considered remote. No accrual has been made related to this lawsuit.

USA
Two separate lawsuits on the docket involve injury to an employee of a drilling services company who was purported injured during drilling operations. In each respective case, the drilling company was under contract to Nornew, Inc, a subsidiary of Norse Energy Corp. ASA. In each lawsuit, Nornew is contractually indemnified by the drilling company from liability for any damages awarded pursuant to these causes of action, thus Nornew does not anticipate any liability resulting from these causes of action.

The third lawsuit involves a family dispute relative to asserted erroneous partition of lands on which Nornew is producing gas from several gas wells. Nornew has always paid royalties based on its title opinions, and expects the royalty disbursement issues to be resolved via the court's decision relative to the family's partition of the lands and minerals.

NOTE 24 Company structure

The table below sets out Norse Energy's company structure as of December 31, 2007.

Company	Subsidiaries	Ownership (in %)	Nationality of subsidiary
Norse Energy Corp. ASA	Norse Energy AS	100	Norway
	Norse Energy Corp. USA	100	USA
	Naftex Energy Corporation	100	Canada
	Norse Energy do Brasil S.A.	99.99	Brazil
	Coplex Petroleo do Brasil Ltda.	0.01	Brazil
Naftex Energy Corporation	Naftex Whitehorse Yukon Corp.	100	Canada
	Naftex Yukon Corp.	100	Canada
	Naftex Holdings Ltd.	100	Cayman Island
Norse Energy do Brasil S.A.	Coplex Petroleo do Brasil Ltda.	99.99	Brazil
	Rio das Contas Produtora de Petroleo Ltda	55	Brazil
	Morro do Barro Produtora de Petroleo Ltda	90	Brazil
Coplex Petroleo do Brasil Ltda.	Rio das Contas Produtora de Petroleo Ltda	45	Brazil
	Morro do Barro Produtora de Petroleo Ltda	10	Brazil
Norse Energy Corp. USA	Nornew, Inc.	100	USA
	Nornew Energy Supply, Inc.	100	USA
	Norse Pipeline, LLC	100	USA
	Mid American Natural Resources, LLC	100	USA
	NEC Drilling, LLC	100	USA
	Strategic Energy Corporation	50	USA
Strategic Energy Corporation	MariCo Oil and Gas Corporation	100	USA
Nornew, Inc.	Vandermark Exploration, Inc.	100	USA

The remaining 0.01 % shares in Norse Energy do Brazil S.A. are owned by the five directors serving on the Board of Norse Energy do Brazil S.A.

NOTE 25 Subsequent events

Sale of Medina field assets
On March 14, 2008, the company finalized the sales transaction with the purchaser of the Medina field assets. These assets are classified as assets held for sale in the balance sheet. See note 3 for further details and carrying amounts.

Change in shareholder composition
In January 2008, the majority shareholder Axel C. Eitzen and affiliated companies of Mr. Eitzen sold all shares in Norse Energy. See discussion in the Director's report for further details.

NOTE 26 Reserves (unaudited)

The company 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 Society of Petroleum Engineers/World Petroleum congress (SPE/WPC) as issued in March 2007. Each region (division) has a long standing relation with its certification agents; Gaffney, Cline & Associates (Brazil) and Schlumberger Technology Corporation (USA).

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

Norse segment	1P reserves (MMBOE)	2P reserves (MMBOE)	3P reserves (MMBOE)	Contingent Resources (Best estimate) (MMBOE)
USA	**10.31**	**13.26**	**17.69**	**32.59**
Northern Appalachia	2.38	3.54	6.58	32.59
Jamestown, NY	7.93	9.72	11.10	-
Brazil	**18.87**	**34.86**	**44.15**	**6.67**
Coral	0.10	0.12	0.15	
Estrela-do-Mar	0.00	5.66	6.79	
Cavalo Marinho	5.03	12.02	15.48	
Manati	13.74	17.07	21.73	
Norse Totals	29.18	48.12	61.84	39.26

The Brazil Contingent Resources are related to various fields.

During 2007, the company has had the following reserves development:

Reserves Development	2P reserves (MMBOE)
Balance (previous ASR) as of December 31, 2006	44.44
Production 2007	-1.55
Acquisitions/disposals since previous ASR	-
Extensions and discoveries since previous ASR	-
New developments since previous ASR	5.68
Revisions of previous estimates	-0.45
Balance (current ASR) as December 31, 2007	**48.12**

PARENT COMPANY FINANCIAL STATEMENTS

Parent Company Income Statement

(Amounts in NOK 1 000)

Years ended December 31,	Note	2007	2006	2005
Operating income				
Operating revenues	2	572	626	2 735
Total operating income		**572**	**626**	**2 735**
Operating expenses				
Sales, administrative and general expenses	3	16 235	14 763	11 953
Depletion and depreciation	4	77	44	0
Total operating expenses		**16 312**	**14 807**	**11 953**
Operating profit (loss)		**-15 740**	**-14 182**	**-9 218**
Financial items				
Interest received from subsidiaries	2	30 546	24 369	12 352
Other interest income		7 314	5 299	2 865
Other financial income	6	44 971	34	0
Currency gain/loss		-38 813	-28 377	25 357
Interest costs	5	-69 635	-46 003	-22 195
Loss on derivatives	6	-7 114	-24 110	-2 249
Impairment of subsidiary	6	-198 398	0	0
Other financial costs		-5 859	-3 317	-470
Net financial items		**-236 987**	**-72 105**	**15 660**
Results from continued operations		**-252 727**	**-86 287**	**6 442**
Taxes	7	0	0	0
Net profit (loss) from ordinary activities		**-252 727**	**-86 287**	**6 442**
Net profit (loss) for the year		**-252 727**	**-86 287**	**6 442**

The Board of Directors

Lysaker, April 18, 2008
Norse Energy Corp. ASA

Petter Mannsverk Andresen
Chairman of the Board

Jon-Aksel Torgersen
Director

Lise Heien Langaard
Director

Joey S. Horn
Director

Øivind Risberg
Director and Chief Executive Officer

Parent Company Balance Sheet

(Amounts in NOK 1 000)

As of December 31,	Note	2007	2006
ASSETS			
Non-current assets			
Furniture, fixtures and office equipment	4	258	270
Investment in subsidiaries	8	521 029	612 990
Loan to subsidiaries	2	435 541	404 796
Financial derivatives		0	7 122
Other non-current assets		60	0
Total non-current assets		**956 888**	**1 025 179**
Current assets			
Loan to subsidiaries	2	362 520	381 585
Other current assets		766	168
Cash and cash equivalents	9	156 354	218 457
Total current assets		**519 641**	**600 210**
TOTAL ASSETS		1 476 529	1 625 388

Parent Company Balance Sheet

(Amounts in NOK 1 000)

As of December 31,	Note	2007	2006
EQUITY AND LIABILITIES			
EQUITY			
Paid-in capital			
Share capital		310 345	310 345
Share premium reserve		295 605	626 987
Treasury shares		-92	-92
Total paid-in capital		**605 857**	**937 240**
Retained earnings			
Loss carried forward		0	-79 244
Total retained earnings		**0**	**-79 244**
TOTAL EQUITY	10	**605 857**	**857 996**
LIABILITIES			
Long term liabilities			
Provision for accruals		713	713
Pension liability	3	0	190
Bond loan	5	832 456	727 698
Total long term liabilities		**833 169**	**728 600**
Current liabilities			
Accounts payable		31	9
Financial derivatives		0	7 761
Other current liabilities		37 472	31 022
Total current liabilities		**37 503**	**38 792**
TOTAL LIABILITIES		**870 671**	**767 392**
TOTAL EQUITY AND LIABILITIES		**1 476 529**	**1 625 388**

Parent Company Statement of Cash Flow

(Amounts in NOK 1 000)

Years ended December 31,	2007	2006
Cash flows from operating activities		
Net profit/(loss) for the year	-252 727	-86 287
Depreciation	77	44
Options expensed	589	-507
Impairment on investment in subsidiary	198 398	0
Change in other accruals and unrealized currency items	43 670	54 391
Net cash flows from operating activities	**-9 993**	**-32 359**
Cash flows from investing activities		
Change in investments in subsidiaries	-97 158	-104 901
Increase in loans to subsidiaries	-138 220	-340 509
Investments in office equipment	-64	-135
Acquisition of oil put options	0	-9 321
Fees realted to financial instruments	0	-5 084
Investments in Biofuel Energy ASA	-60	0
Net cash flows from investing activities	**-235 502**	**-459 950**
Cash flows from financing activities		
Proceeds from issuance of shares	0	124 800
Share issue costs	0	-5 501
Repayment of loans	0	-38 633
Proceeds from draw downs on loans	197 500	483 201
Net cash flows from financing activities	**197 500**	**563 867**
Net increase in cash and cash equivalents	**-47 995**	**71 558**
Cash and cash equivalents at the beginning of the financial year	218 457	146 899
Effects of exchange rate changes on the balance of cash held in foreign currencies	-14 108	0
Cash and cash equivalents at the end of the financial year	**156 354**	**218 457**

NOTES to Parent Company Financial Statements

NOTE 1 Accounting principles and merger

The annual accounts for the parent company Norse Energy Corp. ASA have been prepared in accordance with the provisions of the Norwegian Accounting Act and Norwegian Generally Accepted Accounting Principles (NGAAP). The consolidated financial statements have been prepared under International Financial Reporting Standards (IFRS) and are presented separately from the parent company.

The accounting policies under IFRS are described in note 1 to the consolidated financial statements. The accounting principles applied under NGAAP are in conformity with IFRS unless otherwise stated in the notes below.

The parent company's annual financial statements are presented in Norwegian Kroner (NOK) which is the currency used for accounting purposes. Shares in subsidiaries and other shares are recorded in Norse Energy Corp. ASA's accounts using the cost method of accounting. Bond loans are booked net of the amortized transaction costs, and the transaction costs are amortized over the loan period.

Northern Oil ASA and NaturGass (USA) AS merged with effect for the financial accounts February 25, 2005. See further details in note 1 in the consolidated financial statements.

NOTE 2 Transactions and balances with subsidiaries

Operating revenues relate exclusively to the provision of administrative services to subsidiaries.

Outstanding loans and balances with subsidiaries (denominated in USD) amount to NOK 798 million, including accrued interest, per exchange rate at year-end. Per year-end 2006, outstanding loans amounted to NOK 786.

The parent company's loan to the Brazilian subsidiaries Coplex, Rio das Contas and Norse Energy do Brazil are considered to be short term, and amounts per year-end to USD 80 million (NOK 436 million) compared to USD 59 million (NOK 368 million) in 2006. Loan to Naftex is also considered to be short term, and amounted to USD 2 mill (NOK 9 million) per year-end 2006, while at year-end 2007 the loan was written off to NOK 0 as recoverability was uncertain. Loans to NEC USA amounts to USD 67 million (NOK 363 million), and are considered to be long term loans. Per year-end 2006, these loans amounted to USD 64 million (NOK 405 million).

NOTE 3 Sales, administrative and general expenses

Salaries
The parent company had 5 employees at December 31, 2007, and an average of 5 employees during the year, compared to 3 employees at December 31, 2006 and an average of 3.75 during 2006. Wages and salaries for these employees are included in Sales, administrative and general expenses.

Øivind Risberg, CEO of NEC USA, assumed the role as CEO for the parent company with effect from May 23, 2005. For details on both Mr. Risberg and as CFO Mr. Anders Kapstad remuneration for 2006 and 2007, refer to note 6 in the consolidated financial statements.

Norse Energy has an option program amounting to 10 million shares, approved by the Annual General Meeting on May 23, 2006. At the beginning of the year, 7.3 million of these options were granted to key employees, and as of December 31, 2007, 9.9 million options have been granted. For further details on this program, see note 12 in the consolidated financial statements.

Breakdown on wages and other compensation to the employees:

(Amounts in NOK 1 000)

	2007	2006	2005
Wages	4 843	2 949	1 871
Employer's contribution	1105	563	258
Pension costs	327	550	0
Other compensation	848	586	39
Total wage expenses and other compensation	**7 123**	**4 648**	**2 168**

Board of Directors remuneration
Remuneration of members of the Board and committees of the Board is summarized below:

(Amounts in NOK 1 000)

	2007	2006	2005
Petter Mannsverk Andresen, Chairman (former Director)	375	150	88
Joey S. Horn, Director	375	150	88
Jon-Aksel Torgersen, Director	375	150	225
Lise Heien Langaard, Director	0	0	0
Øivind Risberg, Director and CEO	0	0	0
Axel C. Eitzen, former Chairman	425	200	166
Total	**1 550**	**650**	**567**

NOK 1,550,000 was paid in June 2007, of which NOK 925,000 related to 2006. Per year-end, NOK 625,000 is accrued for the second half of 2007.

NOK 650 000 was paid in June 2006, of which NOK 325 000 related to 2005 and was accrued per the beginning of the year. NOK 241 000 was paid in 2005 as remuneration to the current Board of Directors, in addition NOK 325 000 for the second half of 2005 were accrued per year-end 2005.

Pension
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 established a pension scheme in 2006 that meet the requirements of that law. In June 2007, the company changed the pension scheme to a defined contribution scheme. Subsequent to this change, no pension liability is recognized in the balance sheet and an asset of -NOK 120,000 is recognized as a prepayment and classified as "Other current assets". Expenses related to the new scheme of NOK 154 392 was incurred from June to December 2007.

The company's old pension scheme covered a total of 5 employees until it was dissolved in June 2007 and per December 31, 2006, it covered 2 employees. The table below sets out the pension liability recorded in the balance sheet.

(Amounts in NOK 1 000)

Pension cost	2007	2006	2005
Service cost	222	537	0
Interest cost	5	0	0
Return on pension plan assets	-6	-9	0
Amortization of deviation in estimate	85	0	0
P&L effect of one-time incidents	-129	0	0
Payroll tax	-8	22	0
Net pension cost	**169**	**550**	**0**

Amount recognized in the Balance Sheet	2007	2006	2005
Accrued pension obligation at period end	0	269	0
Estimated effect of future salary increases	0	125	0
Estimated pension obligation at period end	0	394	0
Pension plan assets (at fair value) at period end	0	338	0
Unrecognized effects of actuarial gains/losses	0	112	0
Payroll tax	0	22	0
Net benefit obligations	**0**	**190**	**0**

Movement in the recognized liability	2007	2006	2005
Liability at beginning of period	190	0	0
Total expense charged in the income statement	169	550	0
Adjustment for change in pension plan	-116	0	0
Contributions paid	-243	-360	0
Balance period end	**0**	**190**	**0**

Actuarial assumptions	2007	2006	2005
Discount rate	4.4%	4.4%	0
Wage growth	4.5%	4.5%	0
Yield on pension assets	5.4%	5.4%	0
Average turnover	5.0%	5.0%	0

The actuarial assumptions are based on assumptions of demographical factors normally used within the insurance industry and are in line with current recommendations provided by the Norwegian Accounting Standards Board.

Auditor
The company expensed the following amounts (exclusive VAT) for services provided by the auditor Ernst & Young:

(Amounts in NOK 1 000)

	2007	2006	2005
Statutory audit and audit related services	1030	874	681
Tax services	0	95	34
Consulting, other services	44	163	611
Total expensed costs Ernst & Young	**1 074**	**1 132**	**1 326**

NOTE 4

Furniture, fixtures and office equipment

The company has the following office equipment:

(Amounts in NOK 1 000)

	Furniture	IT	Total
Acquisition cost at January 1, 2007	210	139	349
Investments	2	62	64
Disposals	0	0	0
Acquisition cost at December 31, 2007	212	201	413
Accumulated depreciation	72	83	155
Net Book Value at December 31, 2007	**140**	**118**	**258**
Depreciation for the year	21	56	77

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

NOTE 5 Bond loans

During 2007, a new bond loan was obtained, and three bond loans existed as of December 31, 2007. The loans are presented net of the value of the currency swaps in place, which lead to a reclassification in the 2006 balance sheet of approximately NOK 17 million.

NOK 300 million bond loan
The company issued a 5-year senior unsecured bond loan in 2005, with a total borrowing limit of NOK 300 million. NOK 200 million was issued on July 13, 2005, while the final tranche of NOK 100 million was issued in November 2005. The loan will mature on July 13, 2010, and is listed on the Oslo Stock Exchange (OSE) under the ticker “NEC01”.

The bond is a fixed 5-year bullet loan, is unsecured and has an annual coupon of 10 %. The company is not holding any own bonds per year-end 2007.

Norsk Tillitsmann ASA (“Norwegian Trustee”) is representing the various bond holders.

Late November 2005 Norse Energy swapped NOK 250 million into USD 37.5 million at exchange rate NOK/USD 6.665 at a 5-year fixed rate of 10.89 %. Norse Energy will receive 10 % on NOK 250 million annually from Nordea until maturity in July 2010. Norse Energy is obliged to pay Nordea 10.89 % on USD 37.5 million biannually until maturity in July 2010. The transaction required a USD 2.5 million deposit (fixed until maturity) and any upward movement NOK/USD and/or LIBOR rates will trigger extra margin calls. A fall in USD/NOK and/or LIBOR rates will relieve the company of less margin calls. Per December 31, 2007, the deposit totaled USD 3.0 million.

The swap transaction is fair value adjusted each quarter, and any fair value adjustment is booked towards profit and loss. Per year-end 2007 the fair value of the currency swap was USD 8.8 million compared to USD 1.7 million per year end 2006, resulting in an impact on the income statement for the year of -USD 7 million. The value of the currency swap reduces the carrying value of the bond loan.

The company has also swapped the remaining NOK 50 million of the bond loan to USD at exchange rate NOK/USD 6.671 at a floating interest.

The main covenants for the bond loan are as follows:
- Book equity of minimum USD 50 million in the parent company.
- Within a calendar year from when the loan was issued, Norse cannot make any dividend payments; shares repurchases, or make any other distributions that constitutes more than 50% of net profits after taxes.
- Total equity shall constitute at least 30% of “Capital employed” in the parent company. “Capital employed” is defined as Norse Energy’s total equity plus interest bearing debt, including financial instruments that have the commercial effect of borrowing, including guarantees and leasing commitments.

The interest from this loan amounted to -NOK 33 million in 2007.

USD 75 million bond loan
On July 13, 2006 the company issued 50 000 bonds at a nominal value of USD 1 000 per bond for a total of USD 50 million and on November 30, 2006 another 25 000 bonds was issued at a nominal value of USD 1 000 per bond, bringing the total bond loan to USD 75 million. The bonds mature on July 14, 2011, and are listed on OSE under the ticker code “NEC02”. The bond loan is unsecured and carries a fixed interest rate of 6.5% p.a.

Each bond subscriber was allotted 1 000 warrants per bond free of charge. The warrants give the holder the right to subscribe for one new share in the company at an exercise price of NOK 6.10 per share. The warrants are listed separately on OSE under the ticker code “NECJ”.

In accordance with NGAAP, the bond loan is booked net of the amortized transaction costs. These transaction costs will be amortized over the loan period. As of December 31, 2007, the loan amounted to NOK 451 million.

The interest from this loan amounted to -NOK 28 million in 2007.

NOK 200 million bond loan
On June 29, 2007 the company raised NOK 100 million in a 3-year bond issue yielding 3 months NIBOR plus a margin of 4.25 %. Another NOK 200 million can be drawn, and on August 14, 2007 the company raised another NOK 100 million under this facility at the same terms. The bond issue is unsecured and it is listed on the Alternative Bond Market (ABM) as “FRN Norse Energy Corp. 07/10 CALL”.

Norsk Tillitsmann ASA (“Norwegian Trustee”) is representing the various bond holders.

During November 2007, Norse Energy swapped the NOK 200 million into USD 36.7 million at average exchange rate NOK/USD 5.450 at a floating interest rate of 3 months LIBOR + a margin of 4.40 %. Norse Energy will receive 3 months NIBOR + 4.25 % quarterly from Nordea until maturity in July 2010. Norse Energy is obliged to pay Nordea 3 months LIBOR + 4.40 % quarterly until maturity in July 2010. The transaction required a USD 0.9 million deposit (fixed until maturity) and any upward movement NOK/USD and/or LIBOR rates will trigger extra margin calls. A fall in USD/NOK and/or LIBOR rates will relieve the company of less margin calls. Per December 31, 2007, the deposit totaled USD 0.9 million.

The swap transaction is fair value adjusted each quarter, and any fair value adjustment is booked towards profit and loss. Per year-end 2007 the fair value of the currency swap was USD 0.2 million. The value of the currency swap reduces the carrying value of the bond loan.

The main covenants for the bond loan are the same as the NOK 300 million bond loan.

The interest from this loan amounted to -NOK 9 million in 2007.

NOTE 6 Loss on derivatives and impairment of subsidiary

The company is utilizing various financial instruments to hedge against financial market risks. For a discussion on financial market and business risks, refer to note 22 in the consolidated financial statements.

In addition to these derivatives, the company has also entered into a currency swap for the bond loan in 2005, swapping the loan from NOK to USD. However, the effect of the currency swap has been presented as part of the currency gain/loss for the year as it is directly linked to the gain or loss that derives from the bond loan.

(Amounts in NOK 1 000)

	2007	2006	2005
Oil put option	7 114	11 265	2 249
Revus forward contract	0	12 845	0
Total loss on derivatives	**7 114**	**24 110**	**2 249**

The Revus forward contract was settled in the beginning of 2007 and resulted in a net gain for the year of NOK 44.1 million which has been classified within “Other financial income”.

The impairment of subsidiary in 2007 of NOK 198 million is related to Norse Energy’s investment in Naftex (NOK 189 million) and receivable on Naftex (NOK 9 million) This impairment came as a result of a corporate restructuring that occurred during 2007 where the Coplex ownership was sold from Naftex to the parent company. Following this impairment charge, the investment in and receivable on Naftex is booked at NOK 0.

Refer to note 11 in the consolidated financial statements for details on the derivatives above.

NOTE 7 Tax

(Amounts in NOK 1 000)

Specification of the year's income tax expense:

	2007	2006	2005
Tax payable	0	0	0
Change in deferred tax	0	0	0
Total Income tax	**0**	**0**	**0**

Specification of the basis for tax payable:

	2007	2006	2005
Net profit/(-) loss for the year before tax	**-252 727**	**-86 287**	**6 442**
+ Effect of permanent differences	154 921	7 965	-16 058
+ Effect of temporary differences	97 806	78 322	9 616
Basis for tax payable	**0**	**0**	**0**

Specification of the deferred tax:

	2007	2006
Furnitures, fixtures and office equipment	104	114
Financial instruments	56 240	25 315
Pensions and other accruals	-726	-516
Loss carried forward	-939 339	-810 828
Basis for calculating deferred tax asset	**-883 721**	**-785 915**
Calculated deferred tax asset (28%)	247 442	220 056
Deferred tax asset allowance	247 442	220 056
Deferred tax asset, recognized in Balance Sheet	**0**	**0**

The tax loss carried forward has an unlimited time limit. The company is not recognizing any deferred tax asset due to uncertainty of whether any of the tax loss carry forwards can be utilized.

NOTE 8 Investment in subsidiaries

Holdings in subsidiaries consist of the following:

(Amounts in NOK 1 000)

Company	Holding and voting rights	Book value
Naftex Energy Corporation	100 %	0
Norse Energy AS	100 %	100
Norse Energy do Brasil S.A.	99 %	286 707
Norse Energy Corp. USA	100 %	234 218
Coplex Petroleo do Brasil Ltda.	0.01%	4
Total		**521 029**

Naftex is headquartered in Vancouver, Canada. Per year-end, Naftex sold its operations in Brazil to Norse Energy Corp. ASA. The headquarters of Norse Energy do Brasil and Coplex Petroleo do Brasil are in Rio de Janeiro. Norse Energy Corp. USA is headquartered in Houston, Texas.

NOTE 9 Cash and cash equivalents

Per December 31, 2007, NOK 21 million is restricted cash related to the currency swap on the NOK 300 million and NOK 200 million bond loans, and another NOK 0.6 million of the cash accounted for in the balance sheet is restricted for tax deductions related to wages.

NOTE 10

Shareholders equity and shareholder information

Nominal share capital in the parent company at December 31, 2007 amounted to NOK 310 344 786, consisting of 352 664 530 shares at a par value of NOK 0.88.

The table below shows the changes in equity in the Company during 2006 and 2007:

(Amounts in NOK 1 000)

	Share capital	Share premium reserve	Treasury shares	Other equity	Total
Equity at January 1, 2006	282 185	535 762	0	6 442	824 389
Reclassification of treasury shares from other equity	0	0	-92	92	0
Private placement	28 160	96 640	0	0	124 800
Share issue costs	0	-5 415	0	0	-5 415
Employee stock options	0	0	0	508	508
Net profit/(-) loss for the year	0	0	0	-86 287	-86 287
Equity at December 31, 2006	**310 345**	**626 987**	**-92**	**-79 245**	**857 995**
Equity at January 1, 2007	310 345	626 987	-92	-79 245	857 995
Employee stock options	0	0	0	589	589
Net profit/(-) loss for the year	0	-252 727	0	0	-252 727
Transfer from share premiun reserva to cover loss	0	-78 656	0	78 656	0
Equity at December 31, 2007	**310 345**	**295 604**	**-92**	**0**	**605 857**

Treasury shares
The company currently holds 104 605 treasury shares as of December 31, 2007, with a nominal value of NOK 92 052.

Ownership structure
The company had 4 149 shareholders per December 31, 2007. The twenty largest shareholders per year-end were:

	Shareholder	Number of shares	Holding in %
1	CAMILLO ENERGY AS	46 907 233	13,3 %
2	BANK OF NEW YORK, BRUSSELS BRANCH	29 955 872	8,5 %
3	CAMILLO TRADING AS	14 282 832	4,0 %
4	UBS AG, LONDON BRANCH	12 678 300	3,6 %
5	SOLODDEN AS	10 333 894	2,9 %
6	VIKSUND AS	9 593 000	2,7 %
7	DITLEF HVALSTAD BJÅMER	5 250 000	1,5 %
8	KAJUKA AS	5 200 000	1,5 %
9	TYRHOLM & FARSTAD A/S	5 029 616	1,4 %
10	SVERRE ANDREAS FARSTAD	5 000 000	1,4 %
11	DEUTSCHE BANK AG LONDON	4 460 664	1,3 %
12	JAN HENRY FARSTAD	4 107 616	1,2 %
13	DNB NOR SMB	3 484 000	1,0 %
14	BARCLAYS BANK PLC	3 117 255	0,9 %
15	JPMORGAN CHASE BANK	3 001 000	0,9 %
16	NESTOR SHIPPING AS	2 971 000	0,8 %
17	AXEL CAMILLO EITZEN	2 511 147	0,7 %
18	WESTCAP A/S	2 500 000	0,7 %
19	CATRE AS	2 480 011	0,7 %
20	MORGAN STANLEY & CO. INC.	2 474 223	0,7 %
	TOP 20 SHAREHOLDERS	**175 337 663**	**49,7 %**
	OTHER SHAREHOLDERS	177 326 867	50,3 %
	TOTAL SHARES	**352 664 530**	**100,0 %**

Shares owned by executive officers and directors per December 31, 2007:

Shareholder	Position	# of shares	% of total
AXEL C. EITZEN	Former Chairman of the board, Norse Energy Corp. ASA	66 681 364	18,91 %
ØIVIND RISBERG	Director and Chief Executive Officer, Norse Energy Corp. ASA	23 926 894	6,78 %
HEGE KIRKEDAM	Chief Financial Officer, Norse Energy Corp. USA	566 606	0,16 %
ANDERS KAPSTAD	Chief Financial Officer, Norse Energy Corp. ASA	206 000	0,06 %
MARK WILLIAMS	President, MidAmerican Natural Resources	126 491	0,04 %
JOEY S. HORN	Director, Norse Energy Corp. ASA	100 000	0,03 %
CARL PETER BERG	Chief Financial Officer, Norse Energy do Brazil	40 000	0,01 %
H.M. STRØMMEVOLD	Technical advisor, Norse Energy Corp. ASA	34 000	0,01 %

Shareholder distribution per December 31, 2007:

Amount of shares	# of shareholders	% of total	# shares	Holding in %
1 - 1 000	407	9,8 %	203 821	0,1 %
1 001 - 5 000	1 210	29,2 %	3 456 310	1,0 %
5 001 - 10 000	778	18,8 %	6 447 581	1,8 %
10 001 - 100 000	1 440	34,7 %	52 233 812	14,8 %
100 001 - 1 000 000	265	6,4 %	71 373 363	20,2 %
1 000 001 +	49	1,2 %	218 949 643	62,1 %
TOTAL	4 149	100,0 %	352 664 530	100,0 %

See note 12 to the consolidated financial statements for the company's option scheme and granted options.

NOTE 11

Guarantee liabilities

Norse Energy has provided a performance guarantee to the Brazilian petroleum directorate ANP, in terms of which the company is liable for the commitments for Coral, Estrela do Mar, Cavalo Marinho, BCAM-40, BM-CAL 5 & 6, BT-REC 22 & 30 and Sardinha licenses in accordance with the given concessions for the licenses. The guarantee is unlimited.

The parent company has provided guarantee letters for certain loans that its subsidiaries have in Brazil, totaling USD 21 million. The parent company has also provided guarantee letters on behalf of the subsidiary Mid American Natural Resources totaling USD 0.6 million.

See also further details about financial and market risk in note 22 to the consolidated financial statements.

NOTE 12

Related parties

The parent company leases offices spaces from Eitzen Holding AS – a company controlled by Axel C. Eitzen, the largest shareholder and former chairman of the Board of Norse Energy. For 2007 the company was invoiced NOK 510 592 in lease expenses, and per year-end no outstanding liabilities were recorded.

In early 2007, the company received 200 000 shares in Biofuel Energy ASA as payment for services rendered. The chairman of the Board in Norse Energy, Petter Mannsverk Andresen, is also the CEO of Biofuel Energy ASA.

NOTE 13

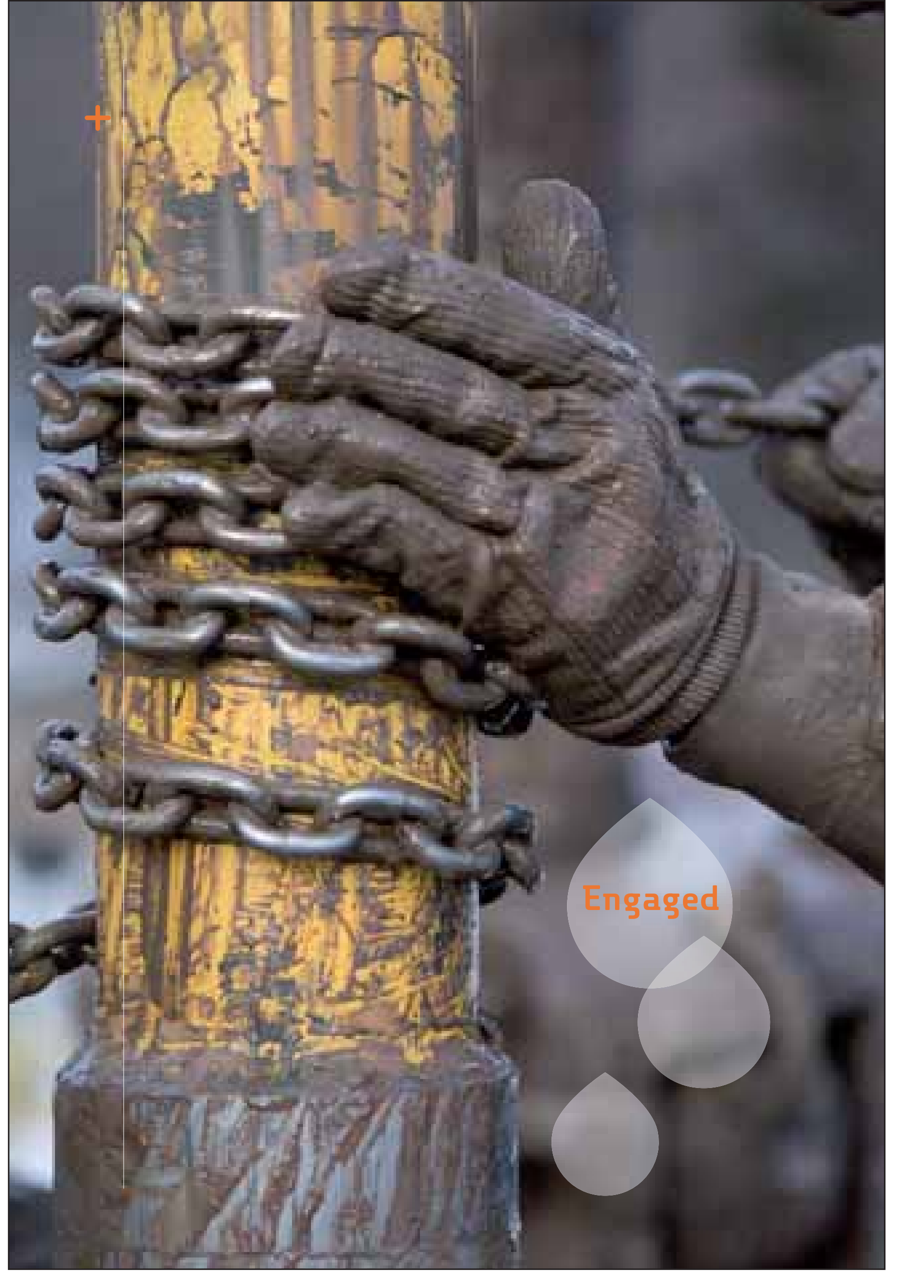
Financial market risk and business risk

See details in note 22 in the consolidated financial statements.

NOTE 14

Subsequent events

Change in shareholder composition
In January 2008, the company's majority shareholder, Axel C. Eitzen, and affiliated companies of Mr. Eitzen sold all shares in Norse Energy. For further details on this, refer to discussion in the Director's Report.



AUDITOR'S REPORT

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

Auditor's report for 2007

STATEMENT ON CORPORATE GOVERNANCE in Norse Energy Corp. ASA

Norwegian listed companies are obliged to follow the principles set forth in The Norwegian Code of Practice for corporate governance. Norse Energy seeks to comply with all the requirements covered in the code. For a more in depth corporate governance report, reference is made to our website www.norseenergy.com.

1 Implementation and reporting on corporate governance
Norse Energy acknowledges that successful value-added business is profoundly dependent upon transparency and internal and external confidence and trust. Norse 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 Norse Energy's Code of Conduct is an invaluable tool in helping the board to ensure that we properly discharge our duty.

Corporate Governance in Norse Energy
The board will strive to work as an active and dynamic forum, acting in the best interest of Norse Energy and its beneficiaries. The board is headed by the chairman of the board. The responsibility of the chairman is to lead the work of the board, and to ensure that this is in accordance with Norwegian law and the corporate governance directives. The Norwegian Code of Practice for corporate governance as of December 4, 2007 comprises 15 points as taken into account below.

2 Business Idea and Vision and Articles of Association
Norse Energy is the result of a merger of NaturGass (USA) AS, a Norwegian private company and Northern Oil ASA, a Norwegian publicly traded entity, whose shares were listed on the Oslo Stock Exchange. Norse Energy Corp was listed on the OSE on July 13, 2005.

The company's business is defined in the Articles of Association §2 which states; "The company's strategy is to build a technically driven exploration & production organization in USA and Brazil. The company's business shall comprise investments in other enterprises of any kind through contribution of equity, loan or guarantees and also exploration and production of oil natural gas and other energy forms".

The company's activities are divided into four segments:

- **Exploration and Production of oil and gas in Brazil**
  Norse Energy participates in multiple oil and gas exploration and production licenses primarily located in the Santos basin and in the Camamu-Almada Basin offshore Brazil. One of these fields, Coral, has been in production since March 2003, while the Manati gas field commenced production in January 2007.

- **Exploration and Production of natural gas in the US**
  The US E&P division is located in the northern Appalachian Basin with headquarter offices in Buffalo, New York, and several field offices.

- **Gathering & Transmission (pipeline system) in the US**
  The company owns and operates approximately 550 miles of gathering and transmission pipelines located in western and central New York and north-western Pennsylvania. The lines have outlets into major interstate pipelines, as well as to local end users.

- **Energy Marketing Division in the US**
  The EM division is made up of Mid American Natural Resources, L.L.., an established energy marketing and trading firm in the Appalachian region.

3 Equity & Dividend Policy
The company's book equity at December 31, 2007 was USD 83.4 million representing an equity ratio of 19 %. The stock price closed at the end of the year at NOK 4.56.

Norse 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 Norse Energy to be sufficiently capitalized.

Norse Energy's objectives are to create lasting values and provide competitive returns to its shareholders through profitability and growth. Dividends should arise in line with the growth in the company's results while at the same time recognizing the need for financial preparedness for cyclical market movements, as well as opportunities for adding value through new profitable investments.

The 2007 General Meeting authorized the Board to increase the share capital up to NOK 146 372 393.20 and to acquire 32 266 453 of the company's own shares. The mandate was not restricted to defined purposes, as recommended by the Code, and is valid until the next Annual General Meeting. None of the mentioned authorizations has been exercised during the authorization period.

4 Equal Treatment of Shareholders and Close Associates
Norse Energy has one class of shares representing one vote at the Annual General Meeting (AGM). The articles of association contain no restriction regarding the rights to vote. Board members, management and close associates must clear transactions prior to purchase of shares in the company.

As mentioned in chapter 3, the 2007 General Meeting gave the Board authority to increase the company's share capital. According to the resolution, the existing shareholder's preferential rights to subscription of shares will be set aside.

5 Freely Negotiable Shares
The Norse Energy Corp. ASA share is listed on The Oslo Stock Exchange. There are no restrictions on negotiability in Norse Energy's Articles of association. Hence Norse Energy's shares are freely negotiable, and thus no restrictions on buying or selling the shares in Norway, others than those required by Norwegian legislation.

6 General Meetings
The annual general meeting is the company's highest body.

Norse Energy's articles of association and The Norwegian Public Limited Liability companies Act stipulate the role and mandate of the AGM.

Norse 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 two weeks prior to the meeting to all shareholders in the company. The invitation is also distributed as a stock exchange notification and posted on the web site three weeks prior to the meeting. Present at the AGM is the Chairman of the board and the CEO. After the meeting the Minutes are released on our website www.norseenergy.com. Shareholders who are unable to attend in person are encouraged to participate by Power of Attorney. Dividend, remuneration to the board and the election of the Auditor, will be decided at the AGM. Separate directions for a calling notice for the AGM have been established.

In accordance with Norwegian law, an auditor or a shareholder representing at least 5 % of the share capital may request an extraordinary general meeting to discuss a particular matter. The board must ensure that the meeting is held within a month of the request being submitted.

7 Nomination Committee
Norse Energy has for the time being no Nomination Committee. Due to the structure of the Company, the company has not found a need to establish an independent nomination committee. The board will appoint a nomination committee as a sub-committee of the board on an ad hoc basis if required.

8 Board of Directors: Composition and Independence
The composition of the Board of Directors ensures that the board can represent the common interests of all shareholders. Norse Energy's Board of Directors has five members; two females and three males as required in Norway. The CEO of the company is a Board member and is also a significant shareholder in the company.

In the opinion of the company, it is in the best interest of the company that the CEO is represented on the Board of Directors. This ensures the necessary ties and co-operation between the Board and management.

The Chairman of the Board was unanimously elected by the Board members after the resignation of the former Chairman in 2007. The company has not experienced a need for a permanent deputy Chairman. If the Chairman cannot participate in the BOD meetings, the Board will elect a deputy Chairman on an ad hoc basis. The Board has established a compensation committee and an audit committee.

The company's website and annual report provides detailed information about the Board members expertise and capacities.

The Board is aware of the need for diversification in its members, in order to add value and to best serve the common interests of Norse Energy and its shareholders (particularly with respect to expertise, experience, social skills, and independence, flexibility and time capacity).

The Board needs to be able to work as a forum in the best interest of Norse Energy and its shareholders.

The Board has an audit committee comprising of Petter Mannsverk Andresen, Joey Horn and Anders Kapstad (CFO). The Board emphasizes that the independant Board members have the majority in the committee. Furthermore, the Board has appointed a compensation committee, comprising of Petter Mannsverk Andresen, Jon-Aksel Torgersen and Lise Heien Langaard. The members are independant of the executive management.

9 The Work of the Board of Directors
The Board has ensured that the activities in Norse Energy are soundly organized. This includes drawing up plans and budgets for the activities of the company, keeping itself informed of the company's financial position and ensuring that its activities, accounts and asset management are subject to adequate control.

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

The Board of Directors 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 CEO is responsible for the company's daily operations and ensuring that all necessary information is presented to the Board. The Board shall stay informed of the company's financial position and ensure adequate control of activities, accounts and asset management. The Board members experience and skills are crucial to the company both from a financial as well as an operational perspective.

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 Norse Energy business idea and vision and applicable laws and regulations, are the BOD's responsibilities and the essence of our work. Hence we must focus on ensuring proper financial and internal control, including risk control systems.

The Board approves the company's strategy and level of acceptable risk which is documented in the guiding tool "Financial Risk Management".

The company's primary products, crude oil and natural gas, are exposed to continuous price fluctuations. Furthermore, the development of oil and gas fields in which the company is involved is associated with significant technical risk. Such operations might occasionally lead to cost overruns and production disruptions, as well as delays compared with the

plans laid out by the operators of these fields. To mitigate such financial risks, the company has entered into several financial derivative transactions such as hedging of natural gas production, purchase of currency swaps (partially with fixed interest) and purchase of oil put options.

For further details on the use of financial instruments, refer to note 11 in the consolidated financial statements and the company's guiding tool "Financial Risk Management" described in note 22 in the consolidated financial statements.

11 Remuneration of the Board of Directors
The remuneration of the Board of Directors will be decided at the AGM each year. The Board members currently receive remuneration for their work according to the following rates per year:

Board chair: NOK 350 000
Board member: NOK 300 000

The CEO does not receive any remuneration for being a Board member.

12 Remuneration of Executives
Norse Energy has appointed a Compensation Committee which meets regularly. The objective of the committee is to determine the compensation structure and levels of the company's CEO.

Wages to and other remuneration of other members of management shall be decided by the administration. The principles of remuneration shall be based on relevant directions approved by the Board. Remuneration to the CEO shall be at market terms and decided by the Board and made official at the AGM every year. Awarded options must be approved at the AGM.

The Annual Report shall state the management's regular wages, payment in kind, bonus schemes, option agreements, pension schemes and redundancy pay.

Detailed information about options and remuneration for executives and board members is provided in the annual report and on the company's web site as well as notifications to the Oslo Stock Exchange.

13 Information and Communication
Norse Energy's information policy is based on transparency and on providing the shareholders, investors and financial market with correct and timely information, in a way that safeguards the principle of equal treatment of all shareholders, and satisfies the regulations and practice applicable to listed companies. Norse Energy's key communication objectives are visibility, transparency and openness, and the company will achieve these objectives through precise, relevant, timely and consistent information. Norse Energy co-ordinates its external and internal communication activities to ensure that the company is presented in a clear and consistent manner, and that the company's brand and reputation is managed properly. All sensitive information will be controlled and disclosed in compliance with statutory laws and the relevant stock exchange rules and regulations. Primary insiders can only trade in the company's shares eight weeks after the quarterly results are published.

Norse Energy gives four Quarterly presentations a year to shareholders, potential investors and analysts, in addition to presentations at conferences in and out of Norway.

- Norse Energy's website, www.norseenergy.com contains comprehensive information regarding the company, its activity and contact information, and is updated on a regular basis. In addition all presentation materials are available on the website.

- Norse Energy distributes all sensitive press releases as well as all reports through Hugin Connector and Oslo Stock Exchange.

- Norse Energy publishes an annual financial calendar which can be consulted on the Oslo Stock Exchange website, through news agencies and on the company's website.

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

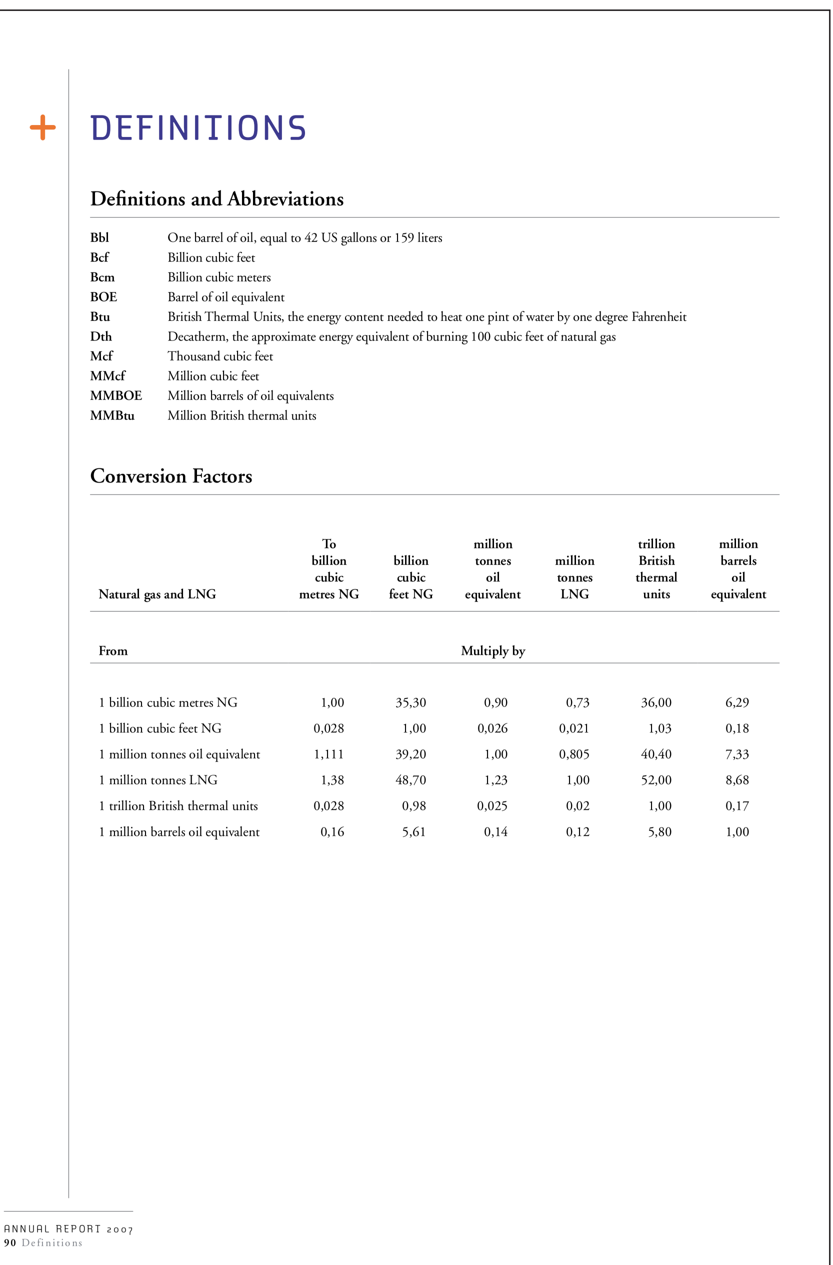
The Board may be authorized by the General Meeting to acquire its own shares, but will not be able to utilize this in order to obstruct a takeover bid, unless approved by the General Meeting following the announcement for a takeover bid.

15 Auditor
The Auditor will be appointed at the Annual General Meeting every year. Ernst & Young AS has previously been appointed.

Norse Energy has appointed an Audit Committee (AC), which will meet with the auditor regularly. The objective of the committee is to focus on internal control, independance of the auditor, risk management and the company's financial standing, including the quarterly and annual financial statements.

The Auditor 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. This is an important tool for the Board in order to get a better overview and fulfil the control duties. The auditor is also present in at least one board meeting each year.

In addition, the Board should receive an annual written confirmation from the Auditor stating that the Auditor continues to satisfy the requirements for independence. The auditor should provide the Board with a summary of all services that have been undertaken for the company, in addition to the audit work.



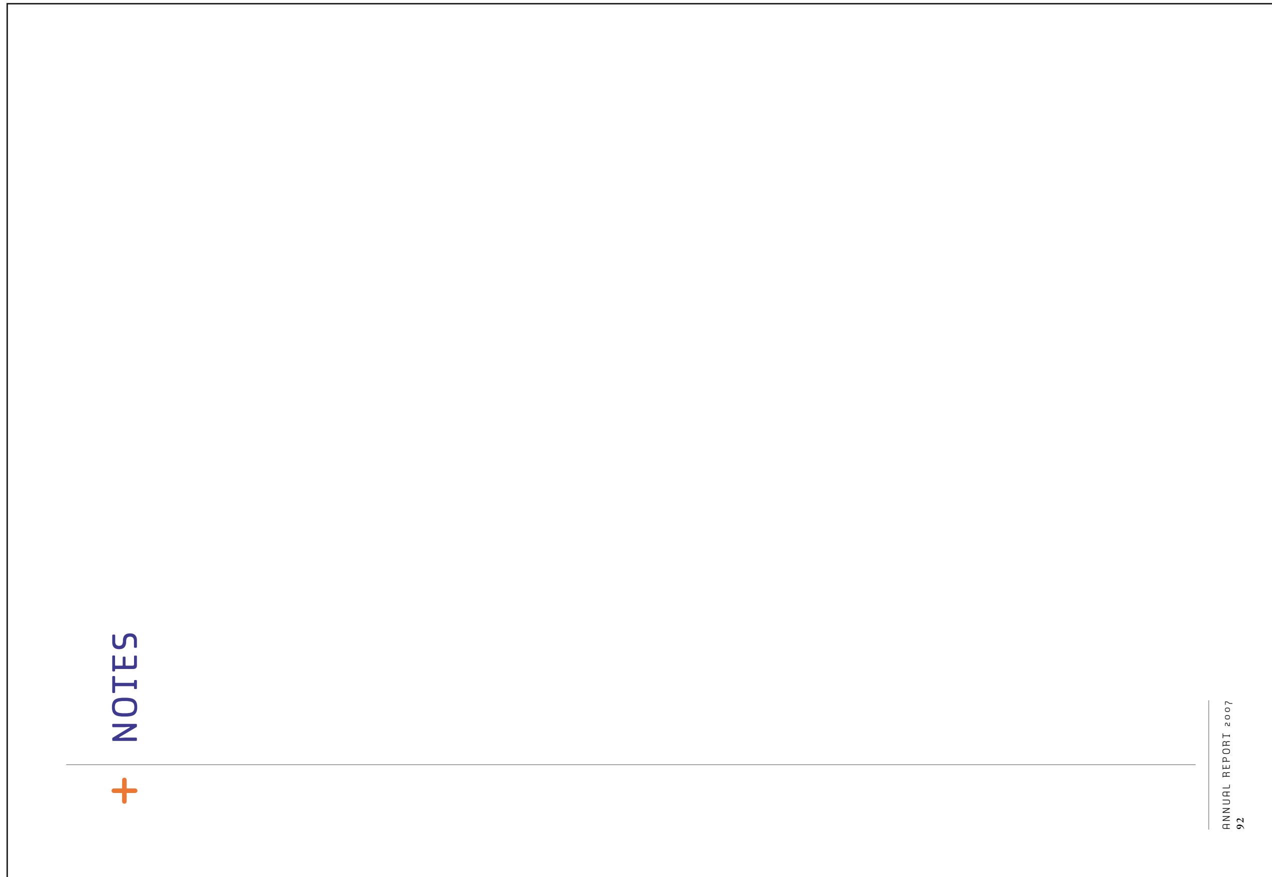
DEFINITIONS

Definitions and Abbreviations

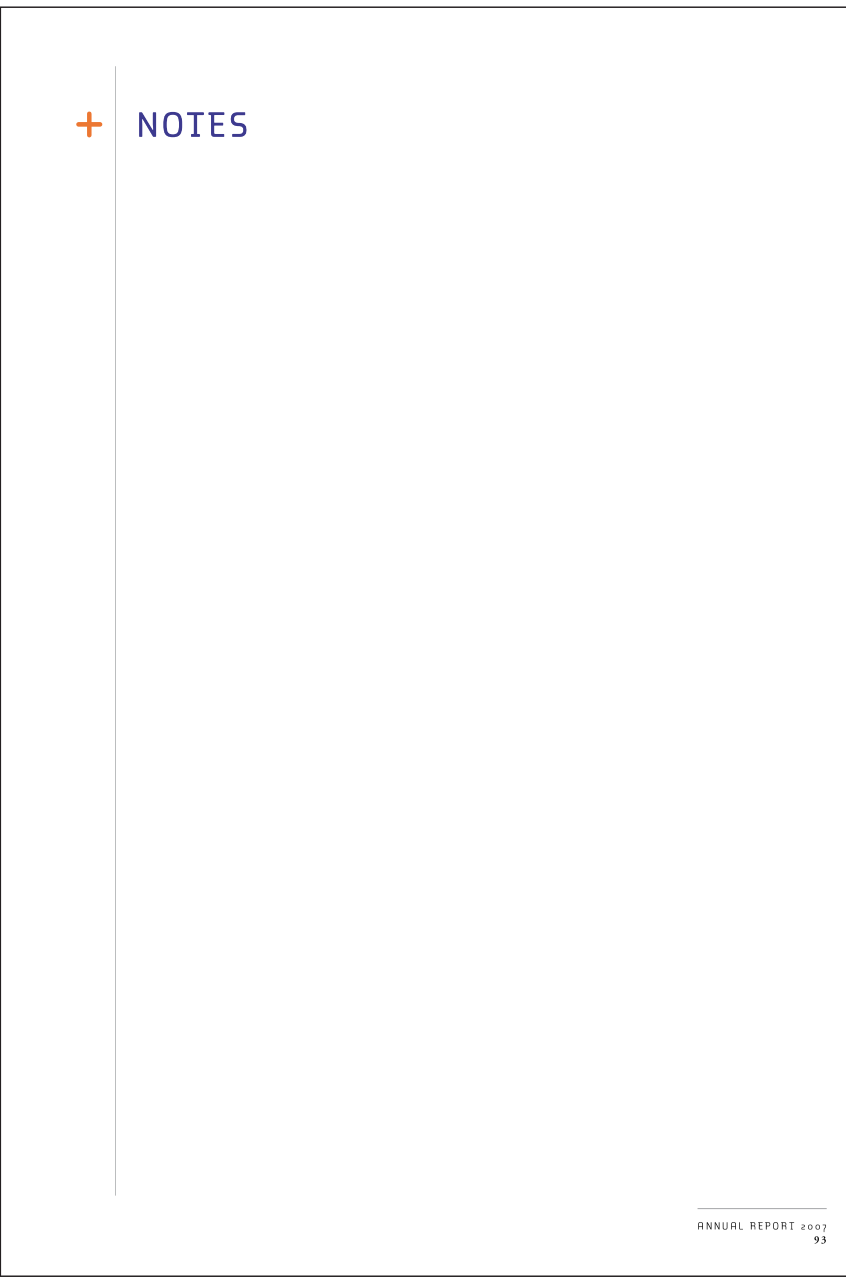
Bbl	One barrel of oil, equal to 42 US gallons or 159 liters
Bcf	Billion cubic feet
Bcm	Billion cubic meters
BOE	Barrel of oil equivalent
Btu	British Thermal Units, the energy content needed to heat one pint of water by one degree Fahrenheit
Dth	Decatherm, the approximate energy equivalent of burning 100 cubic feet of natural gas
Mcf	Thousand cubic feet
MMcf	Million cubic feet
MMBOE	Million barrels of oil equivalents
MMBtu	Million British thermal units

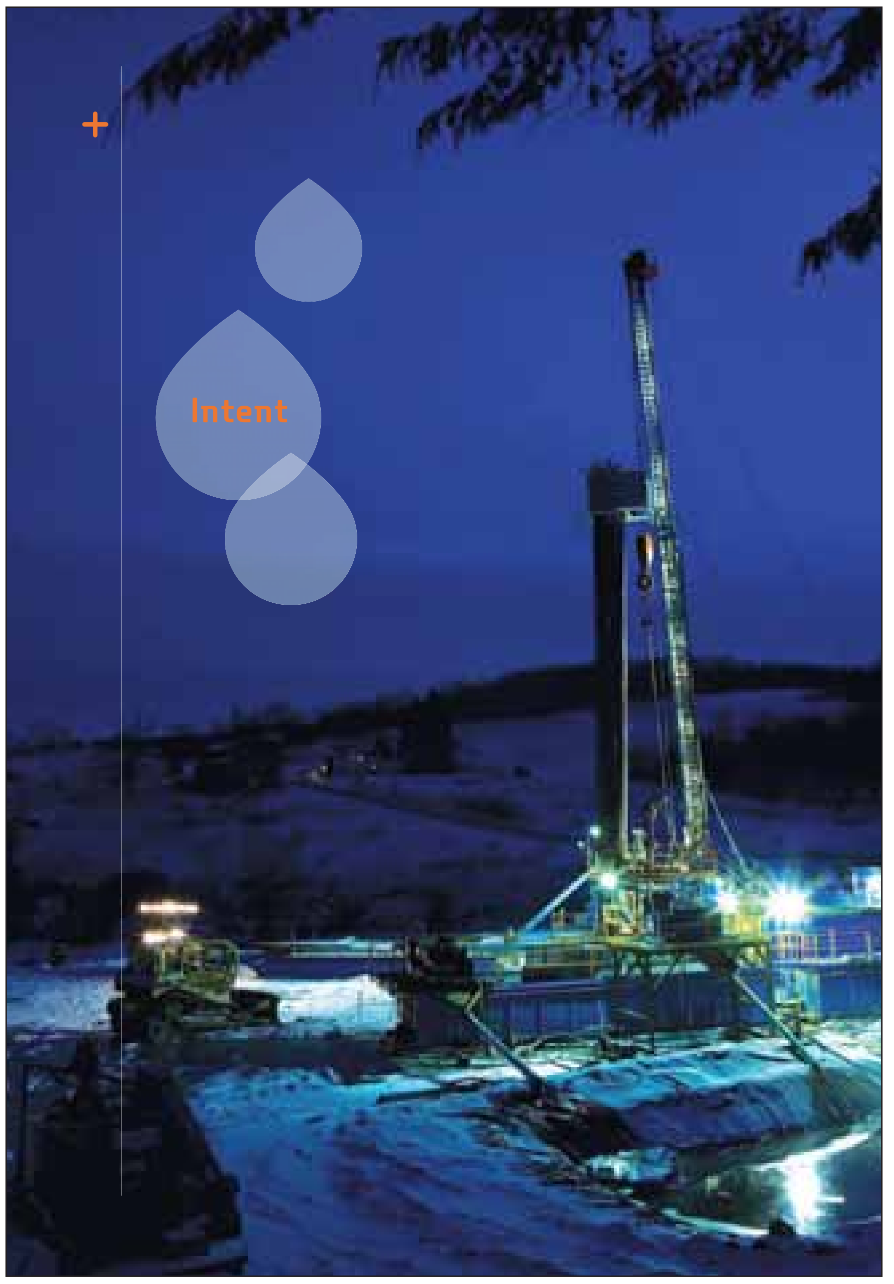
Conversion Factors

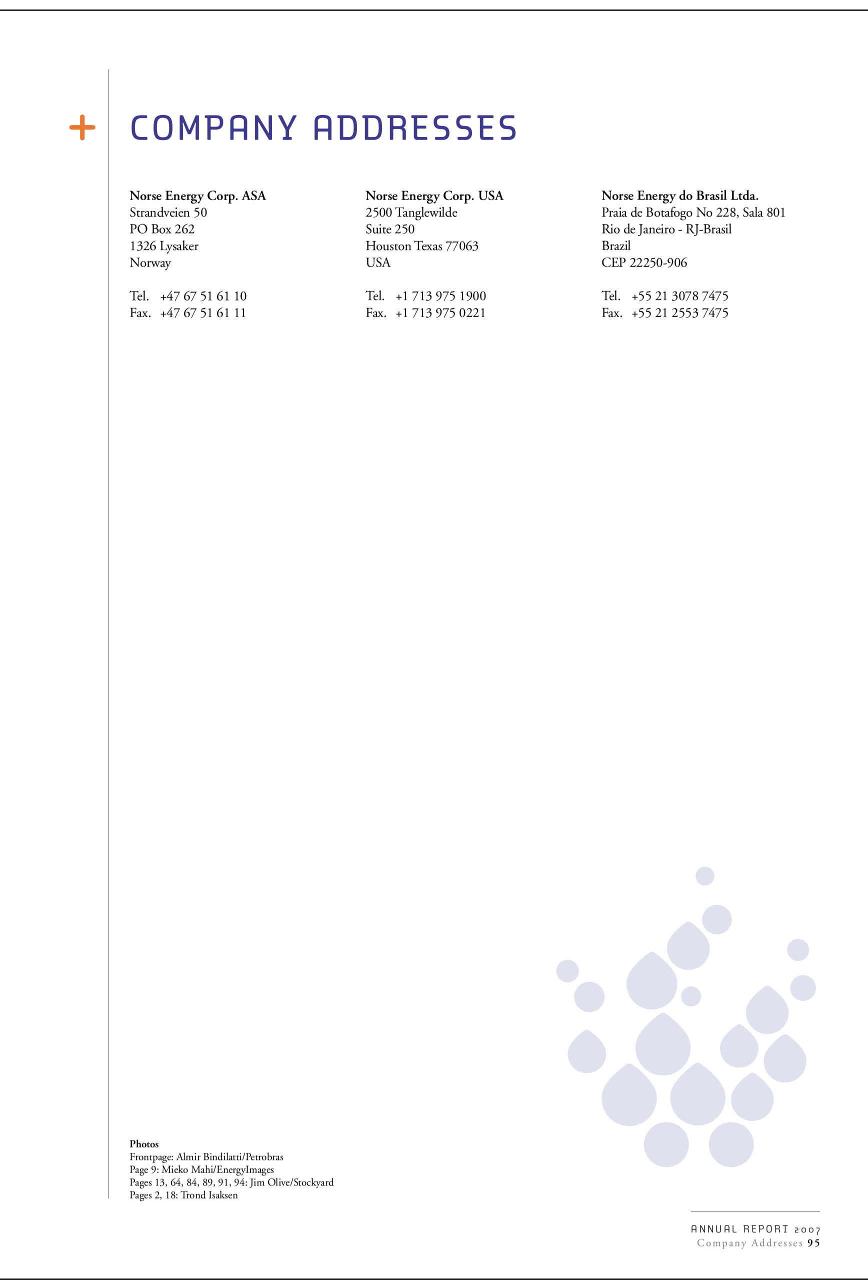
Natural gas and LNG	To billion cubic metres NG	billion cubic feet NG	million tonnes oil equivalent	million tonnes LNG	trillion British thermal units	million barrels oil equivalent
From			**Multiply by**			
1 billion cubic metres NG	1,00	35,30	0,90	0,73	36,00	6,29
1 billion cubic feet NG	0,028	1,00	0,026	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


NOTES
ANNUAL REPORT 2007
92

Involved


NOTES
ANNUAL REPORT 2007
93


Intent



COMPANY ADDRESSES

Norse Energy Corp. ASA
Strandveien 50
PO Box 262
1326 Lysaker
Norway

Tel. +47 67 51 61 10
Fax. +47 67 51 61 11

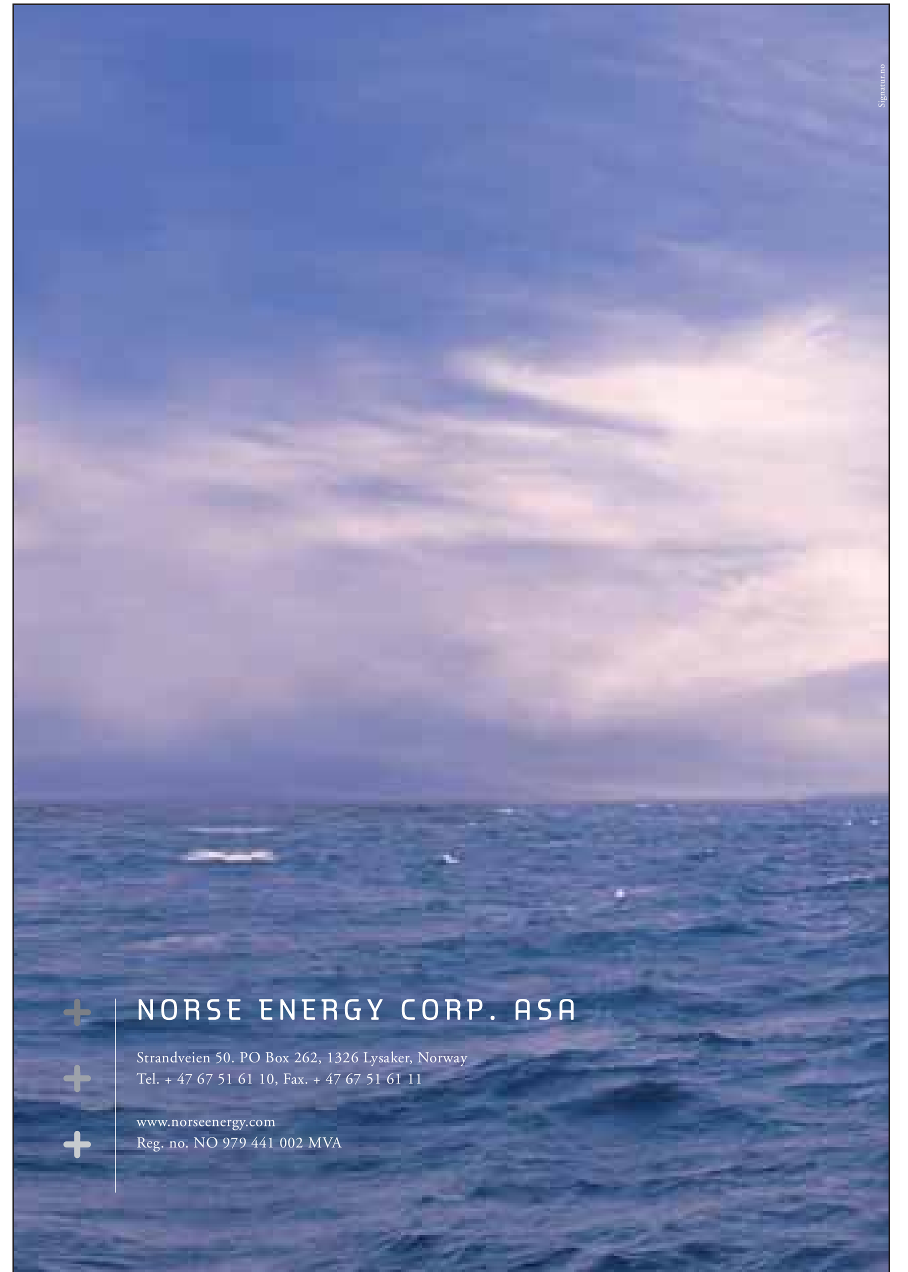
Norse Energy Corp. USA
2500 Tanglewilde
Suite 250
Houston Texas 77063
USA

Tel. +1 713 975 1900
Fax. +1 713 975 0221

Norse Energy do Brasil Ltda.
Praia de Botafogo No 228, Sala 801
Rio de Janeiro - RJ-Brasil
Brazil
CEP 22250-906

Tel. +55 21 3078 7475
Fax. +55 21 2553 7475

Photos
Frontpage: Almir Bindilatti/Petrobras
Page 9: Mieko Mahi/EnergyImages
Pages 13, 64, 84, 89, 91, 94: Jim Olive/Stockyard
Pages 2, 18: Trond Isaksen



APPENDIX 6: PAN PETROLEUM HOLDING CYPRUS LIMITED FINANCIAL STATEMENTS FOR 2009 AND 2008

Pan-Petroleum (Holding) Cyprus Limited

Consolidated Group and Company

Financial Statements

For the Period 28 February 2008, date of incorporation, to

31 December 2008

Directors' report

GENERAL INFORMATION

Directors

Dr P. Vingoe	
Mr N Dighe	
Mr A Stobie	[appointed April 2009]
Mr J Kielland	[non-executive]
Mr T Pedersen	[non-executive]
Mr P de Genevraye	[non-executive]

Company Secretary
Coly Secretarial Limited
Elenion Building, 2nd Floor
5 Themistocles Dervis Street
CY-1066 Cyprus

Registered office
6 Karaiskaki Street
CY-3032
Limassol
Cyprus

Auditors
Ernst & Young Cyprus Limited
Certified Public Accountants and Registered Auditors
P.O. Box 21656
1511 Nicosia
Cyprus

Registered Number
224112

Directors' report

The Board of Directors present their report together with the audited financial statements of Pan-Petroleum (Holding) Cyprus Limited (the 'Company') and the consolidated Pan-Petroleum Group (the 'Group') for the period 28 February 2008, date of incorporation, to 31 December 2008 (the 'Period').

Principal activities, current position and development

The Company is incorporated in Cyprus as a limited liability company and its registered office and principal place of business is located at City House, 6 Karaiskakis Street, Limassol, Cyprus.

The principal activity of the Group is oil and gas exploration, development and production in Nigeria and Gabon. The geographic focus of the Group is West Africa.

The Group aims to acquire assets with existing or near-term production opportunities, field developments with related exploration potential and to build a small, but focused, exploration portfolio. The directors expect the principal activity to remain the same for the foreseeable future.

The financial statements of the Company and Group for the period ended 31 December 2008 were authorised for issue in accordance with a resolution of the directors on 25 November 2009. The financial statements cover the period 28th February 2008 to 31 December 2008.

Financial Results and dividends

The results of the Company and Group for the year are set out on page 7. The loss of the Company for the period amounted to US$3,055,990 and for the equity holders of the Group amounted to US$8,384,610.

The Board of Directors does not propose the payment of a dividend for 2008.

Risk management

In the ordinary course of business, the Company is exposed to a variety of risks. The most significant of these are interest rate risk, liquidity risk and foreign currency risk. These risks are identified, measured and monitored through various mechanisms across the Company in order to prevent undue risk concentrations. Detailed information relating to these risks is set out in note 20 of the financial statements.

Future development

It is anticipated that during the course of 2009 and 2010 the Group will continue to grow through the development of its exploration and production portfolio.

Going Concern

The directors have prepared the accounts on a going concern basis and consider this appropriate in light of the potential value of the company's investments. The directors therefore anticipate continuing support from its main shareholder, Sector Asset Management (see note 1). The circumstances affecting the continuation of this arrangement constitute a material uncertainty which may cast significant doubt about the Group's and the Company's ability to continue as a going concern.

Directors' report

Having considered the above, the directors are satisfied that sufficient financing options are available, to adopt the going concern basis in preparing the financial statements. In taking this view, the directors have made reference to the financial activities outlined in the subsequent events note.

Share capital

The Company was incorporated in Cyprus as a private limited liability company in accordance with the provisions of the Companies Law, Cap.113 on 28 February 2008 and commenced business on the same day. At incorporation there was an authorised share capital of 1,000,000 ordinary shares at a par value of 0.10 Euros. Additional increases to share capital occurred during the Period – see note 17.

Events after the balance sheet date

Events subsequent to the balance sheet date are described in note 25 to the financial statements.

Board of Directors

The Directors of the Company at 31 December 2008 and at the date of this report are shown on page 1.

There is no specific provision in the Company's articles of association for the rotation of the Directors. Consequently, the current directors will continue in office unless they resign or are removed by the shareholders.

During the year, there have been no significant changes in the distribution of responsibilities or the compensation of the Company's Board of Directors.

Auditors

The auditors of the Company, Ernst & Young Cyprus Limited, Certified Public Accountants and Registered Auditors, were first appointed at the board meeting of 4 March 2008. A resolution to reappoint Ernst & Young and to fix their remuneration will be put to the members at the forthcoming Annual General Meeting.

By order of the Board of Directors of the Company

Director

Nicosia

22 December 2009

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable Cyprus Companies Law Cap. 113, and the International Financial Reporting Standards as adopted by the European Union.

The directors are required to prepare financial statements for each financial year, which present fairly the financial position to the Company and the financial performance and cash flows of the Company for that period. In preparing the financial statements the directors are required to:

- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- state that the Company has complied with IFRS's, subject to any material departures disclosed and explained in the financial statements; and
- provide additional disclosures when compliance with the specific requirements in the IFRS's is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Cyprus Companies Law Cap. 113. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditors' Report

to the members of Pan-Petroleum (Holding) Cyprus Limited

Report on the Financial Statements

We have audited the consolidated financial statements of Pan-Petroleum (Holding) Cyprus Limited (the 'Company') and its subsidiaries (the 'Group') and the Company's separate financial statements on pages 7 to 41, which comprise the balance sheets of the Group and the Company as at 31 December 2008, and the income statements, statements of changes in equity and cash flow statements of the Group and the Company for the period ended 31 December 2008, along with a summary of significant accounting policies and other explanatory notes.

Board of Directors' Responsibility for the Financial Statements

The Company's Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union ('EU') and the requirements of the Cyprus Companies Law, Cap. 113. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 the 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 the Board of Directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated and the Company's separate financial statements give a true and fair view of the financial position of the Group and the Company as at 31 December 2008, and the financial performance and the cash flows of the Group and the Company for the period then ended in accordance with International Financial Reporting Standards as adopted by the EU and the requirements of the Cyprus Companies Law, Cap. 113.

Independent Auditors' report

to the members of Pan-Petroleum (Holding) Cyprus Limited

Emphasis of matter

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the Group's ability to continue as a going concern. The circumstances affecting the continuation of these arrangements, explained in note 1, indicate the existence of a material uncertainty which may cast significant doubt about the Group's and the Company's ability to continue as a going concern.

The financial statements do not include the adjustments that would result if the Group and the Company were unable to continue as a going concern.

Report on Other Legal Requirements

Pursuant to the requirements of the Cyprus Company Law, Cap. 113, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company.
- The Company's financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the financial statements of the Group and the Company give the information required by the Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the report of the Board of Directors on pages 2 and 3 is consistent with the financial statements.

Other Matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 156 of the Companies Law, Cap.113 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Ernst & Young Cyprus Limited
Certified Public Accountants and Registered Auditors

Nicosia

22 December 2009

Income statement

for the period ended 31 December 2008

	Notes	*Company* 28 February to 31 December 2008 US$000	*Group* 28 February to 31 December 2008 US$000
Total revenue		-	-
Administrative expenses	5	(4,918)	(8,267)
Operating loss		(4,918)	(8,267)
Finance income	8	1,932	222
Finance cost	9	(49)	(134)
Foreign exchange gain		106	49
Loss on ordinary activities before taxation		(2,929)	(8,130)
Income tax expense	10	(127)	(255)
Loss for the period		(3,056)	(8,385)
Attributable to:			
Equity holders		(3,056)	(8,385)
Minority interest		-	-
Loss for the period		(3,056)	(8,385)

Pan-Petroleum (Holding) Cyprus Limited

Statement of changes in equity

for the period ended 31 December 2008

Company statement of changes in equity

	Notes	*Share Capital US$000*	*Share Premium US$000*	*Accumulated Losses US$000*	*Translation Reserve US$000*	*Shareholders' Equity US$000*
Balance at 28 February 2008		-	-	-	-	-
Capital contributions during the period	17	535	184,465	-	-	185,000
Revaluation of investment		-	-	-	-	-
Foreign exchange movement in the period		-	-	-	-	-
Loss for the period		-	-	(3,056)	-	(3,056)
Balance at 31 December 2008		535	184,465	(3,056)	-	181,944

Pan-Petroleum (Holding) Cyprus Limited

Statement of changes in equity

for the period ended 31 December 2008

Group statement of changes in equity

	Notes	*Share Capital US$000*	*Share Premium US$000*	*Accumulated Losses US$000*	*Translation Reserve US$000*	*Shareholders' Equity US$000*	*Minority Interest US$000*	*Total Equity US$000*
Balance at 28 February 2008		-	-	-	-	-	-	-
Capital contributions during the period	17	535	184,465	-	-	185,000	-	185,000
Revaluation of investment		-	-	-	-	-	-	-
Foreign exchange movement in the period		-	-	-	(66)	(66)	-	(66)
Minority share of acquisition of assets		-	-	-	-	-	15,409	15,409
Loss for the period		-	-	(8,385)	-	(8,385)	-	(8,385)
Balance at 31 December 2008		535	184,465	(8,385)	(66)	176,549	15,409	191,598

Balance sheet

at 31 December 2008

	Notes	*Company* 31 December 2008 US$000	*Group* 31 December 2008 US$000
Non-current assets			
Property, plant and equipment	11	-	60
Intangible E&E Assets	12	-	148,864
Investments in subsidiary undertaking	13	81,605	-
		81,605	148,924
Current assets			
Cash and cash equivalents	14	13,911	14,726
Trade and other receivables	15	87,004	35,965
		100,915	50,691
Total assets		182,520	199,615
Current liabilities			
Trade and other payables	16	471	7,424
Tax payable		105	233
Total liabilities		576	7,657
Share capital	17	535	535
Share premium	18	184,465	184,465
Accumulated losses	18	(3,056)	(8,385)
Translation reserve	18	-	(66)
		181,944	176,549
Minority Interest		-	15,409
Total equity		181,944	191,958
Total liabilities and equity		182,520	199,615

Director   Director

Statement of changes in equity

for the period ended 31 December 2008

Companies which do not distribute at least 70% of their profits after tax, as defined by the Special Contribution for the Defence of the Cyprus Republic Law, during the two years after the year of assessment to which the profits refer, will be deemed to have distributed this amount as dividend. A special contribution for defence at 15% will be payable on such deemed dividend distribution to the extent that the shareholders (individuals and companies) at the end of the aforementioned period, are Cyprus tax residents. The amount of this deemed dividend distribution is reduced by any actual dividend paid out of the profits of the relevant year. This special contribution for defence is paid by the Company on account of the shareholders.

Cash flow statement

For the period ended 31 December 2008

	Notes	*Company* 28 February to 31 December 2008 US$000	*Group* 28 February to 31 December 2008 US$000
Cash flows from operating activities			
Net loss		(3,056)	(8,385)
Adjustments for non cash flow items:			
Finance income/ (expense)		(1,884)	(88)
Tax charge		127	255
Foreign exchange		106	(66)
Depreciation		-	11
Net change in non-cash operating working capital items:			
Trade and other receivables		(59,436)	(35,966)
Trade and other payables		364	7,423
Other non-cash transactions:			
Share capital issued, not yet paid		35,103	35,103
Cash generated from operations		(28,676)	(1,713)
Interest paid		(49)	(134)
Income taxes paid		(22)	(22)
Net cash from operating expenses		(28,747)	(1,869)
Cash flows from financing activities			
Proceeds from issue of share capital	17	65,544	65,544
Net cash used in financing activities		65,544	65,544
Cash flows from investing activities			
Interest received		219	222
Purchase of property, plant and equipment		-	(71)
Purchase of exploration assets		-	(49,632)
Cash acquired		531	531
Acquisition of subsidiary		(23,636)	-
Net cash used in investing activities		(22,886)	(48,950)
Net increase in cash and cash equivalents		13,911	14,726
Cash and cash equivalents at beginning of period		-	-
Cash and cash equivalents at end of period		13,911	14,726

Notes to the financial statements

at 31 December 2008

1. General information

1.1 Material uncertainty

The directors have prepared the accounts on a going concern basis and consider this appropriate in light of the company's ongoing support from Sector. The Company depends upon continuing support of Sector who holds 99% of the shareholders' equity as of the date of these financial statements.

The directors anticipate continuing support to PPHCL from Sector, given the value of the investments held. The circumstances affecting the continuation of this arrangement indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern.

Having considered the above, the directors are satisfied that sufficient financing options are available, or have been put in place by the Company, to adopt the going concern basis in preparing the financial statements. In taking this view, the directors have made reference to the financial activities outlined in the subsequent events note.

In the event that the PPHCL fails to finance these amounts, this may affect the going concern basis of preparation. The financial statements do not include the adjustments that would result if the company were unable to continue as a going concern.

1.2 Corporate information

Pan-Petroleum Holding (Cyprus) Limited, (the 'Company' or 'Pan-Petroleum') is a private limited liability company registered in Cyprus with registered number 224112.

The principal activities of the Company and its subsidiaries (the 'Group') are the acquisition, exploration and development of hydrocarbon assets and production of hydrocarbons in West Africa.

Pan-Petroleum Holding (Cyprus) Limited, was incorporated in Cyprus on 28 February 2008 as a private company with limited liability under the Companies Law, Cap. 113. Its registered office is at 6 Karaiskaki Street, CY-3032, Limassol, Cyprus.

The principal shareholder of the Group is a selection of funds managed by Sector Asset Management ('Sector'). The funds which hold shares in the Group are:

- Sector Speculare (Private Equity) III
- UBS AG in Trust for Sector Spesit I
- UBS AG in Trust for Sector Spesit II
- Sector Speculare (Private Equity) IV

These financial statements include the Group consolidated financial statements and the parent company's financial statements (collectively referred to as 'financial statements') and were authorised for issue by the Board of Directors on 25 November 2009.

Notes to the financial statements
at 31 December 2008

2. Summary of significant accounting policies

The principle accounting policies applied in the preparation of these consolidated and parent company financial statements are set out below. These policies have been consistently applied to all periods presented and both the Company and the Group, unless otherwise stated.

2.1. Basis of preparation

The financial statements of Pan-Petroleum have been prepared in accordance with International Financial Reporting Standards, as adopted by the European Union (IFRSs as adopted by the EU). In addition, the financial statements have been prepared in accordance with the requirements of the Cyprus Companies Law, Cap 113.

The financial statements have been prepared under the historical cost convention.

As the Company has been incorporated in the current year, there is no comparative information to be reported.

(a) Standards, amendment and interpretations effective in 2008

- IFRIC 11- IFRS 2 Group and treasury share transactions (effective date - 1 March 2007)

(b) Standards, amendments and interpretations effective in 2008 but not relevant

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2008 but they are not relevant to the Group's operations:

- IFRIC 12 Service concession arrangements (effective date - 1 January 2008)
- IFRIC 14 – IAS 19 The limit on a defined benefit asset: minimum funding requirements and their interaction (effective date - 1 January 2008)

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group:

- IAS 1 (Revised) 'Presentation of Financial Statements' (effective date – 1 January 2009): The Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Company is still evaluating whether it will have one or two statements.
- IFRS 8 Operating segments (effective date - 1 January 2009): The adoption of this standard will not have any effect on the financial performance or position of the Group but is expected to give rise to additional disclosures
- IFRS 3 Business Combinations and IAS 27 (Revised) 'Consolidated and Separate Financial Statements' (effective date – 1 January 2009): The changes to IFRS 3R and IAS 27R will affect future acquisitions or loss of control and transactions with minority interests.

Notes to the financial statements
at 31 December 2008

- IAS 23 Borrowing Costs (effective date – 1 January 2009): An entity is required to capitalise borrowing costs as part of the cost of assets that take a substantial period of time to get ready for use or sale. The revised standard applies to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. Management expects this amendment to impact the Group, as the Group's current policy is to expense borrowing costs on qualifying assets

(d) Interpretations to existing standards those are not yet effective and not relevant for the Group's operations:

- IFRS 1 First time adoption (effective date – 1 January 2009)
- IFRS 2 Share based payments vesting conditions (effective date – 1 January 2009)
- IAS 32 Presentation of financial instruments (effective date – 1 January 2009)
- IAS 39 Financial instrument recognition & measurement (effective date – 1 January2009)
- IFRIC 13 Customer loyalty programmes (effective date - 1 July 2008)
- IFRIC 15 Agreements for the construction of Real estates (effective date - 1 January 2009)
- IFRIC 16 Hedges of net investment in foreign operation (1 October 2008)
- IFRIC 17 Distribution of non-cash assets to owners (1 July 2009)

2.2 Significant accounting judgments, estimates and assumptions

Estimates and assumptions

The preparation of the financial statements in conformity with IFRS 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, information about significant areas of estimation uncertainty considered by management in preparing the consolidated financial statements is described in the following notes:

Note 10 - Tax

Note 12 –Oil and gas properties and impairment

Note 13 - Impairment of investments in subsidiaries

Note 22 – Capital commitments

Note 23 – Contingent liabilities

Notes to the financial statements

at 31 December 2008

Judgements

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

Reserves base

Oil and gas development and production properties are depreciated on a unit of production basis at a rate calculated by reference to proved reserves determined in accordance with Society of Petroleum Engineers rules and incorporating the estimated future cost of developing and extracting those reserves. Commercial reserves are determined using estimates of oil in place, recovery factors and future oil prices, the latter having an impact on the proportion of the gross reserves which are attributable to the host government under the terms of the Production Sharing Agreements. Future development costs are estimated using assumptions as to number of wells required to produce the commercial reserves, the cost of such wells and associated production facilities, and other capital costs. The current long-term Brent oil price assumption used in the estimation of commercial reserves is US$60.00 per barrel.

Carrying value of oil and gas assets

Oil and gas properties are depreciated using the units-of-production (UOP) method over proved developed and undeveloped mineral reserves.

The calculation of the unit-of-production rate of amortisation could be impacted to the extent that actual production in the future is different from current forecast production based on proved reserves. This would generally result from significant changes in any of the factors or assumptions used in estimating reserves.

These factors could include:

- changes in proved reserves;
- the effect on proved reserves of differences between actual commodity prices and commodity
- price assumptions;
- unforeseen operational issues.

Impairment indicators

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.

Notes to the financial statements

at 31 December 2008

Decommissioning costs

Decommissioning costs will be incurred by the Group at the end of the operating life of certain of the Group's facilities and properties. The ultimate decommissioning 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.

Income taxes

The Group recognises 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 realise the net deferred tax assets recorded at the balance sheet date 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.

2.3 Consolidation

(a) Subsidiaries

The consolidated financial statements include the financial statements of the Company and its subsidiaries. Subsidiaries are all entities in which the Group directly or indirectly owns more than 50 percent of the voting stock or otherwise has the power govern the financial and operating policies. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for business combinations rules by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference

Notes to the financial statements
at 31 December 2008

is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered.

In the parent company stand alone financial statements, subsidiaries are stated at cost, being the fair value of the consideration given, less any impairment in value.

(b) Segment reporting

A reportable segment is a business segment or a geographical segment identified based on the foregoing definitions for which segment information is required to be disclosed.

The operations of the Group comprise one class of business, being oil and gas exploration, development and production and in only two geographic areas: Nigeria and Gabon.

2.4. Foreign currency translation

(a) Functional and presentation currency

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 Group's consolidated financial statements are presented in US dollars, which is the parent company's functional currency: all values are rounded to the nearest thousand (US$000), except when otherwise indicated.

The functional currency of the Group's subsidiaries incorporated in Gabon, Nigeria, Cyprus, Holland and the Cayman Islands is the US dollar ('US$'). The functional currency of the Group's British subsidiary is the Pound Sterling ('GBP').

The closing rates used as at 31 December 2008 was:

- US$1.00 : GBP0.68

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate

Notes to the financial statements
at 31 December 2008

at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

2.5. Exploration & Evaluation

The Company 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 capitalised when it is considered probable that future economic benefits will be recoverable. Until such time, E&E expenditure is expensed as incurred: regardless of the probability that future economic benefits will be recoverable, pre-licence costs are expensed as incurred.

E&E expenditure capitalised as intangible assets include license acquisition costs, geological and geophysical studies, seismic data acquisition and interpretation, exploration drilling. Exploration and evaluation expenditure which is not sufficiently closely related to a specific mineral resource to support capitalisation 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.

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 capitalised costs are charged to expense after the conclusion of appraisal activities.

(a) 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 capitalised 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.

(b) Oil & gas production assets

Development and production assets are accumulated generally on cash generating unit basis and represent the cost of developing the commercial reserves discovered and bringing them in to 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, finance costs capitalised and the cost of recognising provisions for future restoration and decommissioning.

Notes to the financial statements

at 31 December 2008

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.

(c) Depreciation/amortisation

Oil and gas properties and intangible assets are depreciated or amortised 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.

(d) 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. For the purposes of assessing impairment, the exploration and evaluation assets subject to testing are grouped with existing cash-generating units of production fields that are located in the same geographical region.

(e) 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 future 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 the cash flows of each field are interdependent.

2.6. 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 operations

A jointly controlled operation involves the use of assets and other resources of the Group and other venturers rather than the establishment of a corporation, partnership or other entity.

The Group recognises in its financial statements the assets that it controls and the liabilities that it incurs, the expenses it incurs and the share of income that it earns from the sale of goods or services by the joint venture.

Notes to the financial statements

at 31 December 2008

Reimbursement of the Joint Venture operator's costs

When the Group acting as an operator receives reimbursement of direct costs recharged to the joint venture, such recharges represent reimbursements of costs that the operator incurred as an agent for the joint venture and therefore have no effect on the income statement.

In many cases the Group also incurs certain general overhead expenses in carrying out activities on behalf of the joint venture. As these costs can often not be specifically identified, joint venture agreements allow the operator to recover the general overhead expenses incurred by charging an overhead fee that is based on a fixed percentage of the total costs incurred for the year. Although the purpose of this recharge is very similar to the reimbursement of direct costs, the Group is not acting as an agent in this case, therefore, the general overhead expenses and the overhead fee are recognised in the income statement as an expense and income, respectively.

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.

Jointly controlled entities

A jointly controlled entity is a corporation, partnership or other entity in which each participant holds an interest. A jointly controlled entity operates in the same way as other entities, controlling the assets of the joint venture, earning its own income and incurring its own liabilities and expenses. Interests in jointly controlled entities are accounted for using the equity method.

2.7. 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. Land is not depreciated. Depreciation of other assets is calculated on a straight line basis as follows:

Machinery and equipment	6-10 years
Vehicles	3-5 years
Office equipment	3 years

Notes to the financial statements

at 31 December 2008

2.8. Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. This category comprises derivatives unless they are effective hedging instruments.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. This category comprises trade and other receivables and cash.

2.9. Derivative financial instruments

Derivative financial assets and financial liabilities are financial instruments whose value changes in response to an underlying variable, require little or no initial investment and are settled in the future. The Company may use derivatives such as foreign exchange forward contracts to minimize risks of changes in foreign exchange rates. The Group would not apply hedge accounting in respect of forward foreign exchange contracts as the management believes that any future derivative would not qualify for hedge accounting. Consequently, movements in the fair value of derivative instruments would be immediately recognized in the income statement.

2.10. Acquisitions, asset purchases and disposals

Acquisitions of oil and gas properties are accounted for under the purchase method where the business 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 assets 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, no deferred tax gross up arises, and the consideration is allocated to the assets and liabilities purchased on an appropriate basis.

Proceeds on disposal 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 income statement.

2.11. Inventories

Underlifts of entitlement to crude oil production are recorded as a debtor and measured at market value, whereas overlifts are recorded as a creditor and also measured at fair value. The movement in the year is taken to other service costs and expenses in the income statement.

Notes to the financial statements

at 31 December 2008

Materials and supplies inventories are recorded at average cost and are carried at amounts which do not exceed their respective amounts recoverable in the normal course of business.

2.12. Trade and other receivables

Trade and other receivables are presented at recoverable amounts. 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.

2.13. Cash and cash equivalents

Cash and cash equivalents includes cash at hand, and deposits held on call with banks.

2.14. Share capital

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.15. Trade payables

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

2.16. Borrowings

All borrowings are initially recorded at fair value. Interest-bearing loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis to the income statement 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. Differences arising on the discounting of loans from owners are recorded as separate component of equity.

2.17. Current and deferred income tax

Current tax is the amount expected to be paid in respect of taxable profits for the current and prior periods. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group's subsidiaries and operate and generate taxable income.

Deferred income tax is provided in full, using the liability method for tax loss carry forward and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting, nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply

Notes to the financial statements

at 31 December 2008

when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

2.18. Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of oil in the ordinary course of the Group's activities. Revenue is shown net of value added tax, returns, rebates and discounts and after eliminating sales within the Group.

(a) Sales of goods

Revenue from the sale oil is recognised when goods are delivered to customers and title has transferred. Revenue is stated net of value-added tax.

(b) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

3. Financial risk management

3.1. Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, price risk, and cash flow interest rate risk), credit risk, and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk
The Group is exposed to foreign exchange risk arising from currency exposures, primarily with respect to the pound Sterling. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities. Management do not believe that these risks are significant.

(ii) Price risk
The Group is not exposed to price risk as it does not have financial instruments of which the fair values or future cash flows will be affected by changes in market prices.

(iii) Cash flow and fair value interest rate risk
As the Group has no significant interest-bearing assets and liabilities, the Group's income and operating cash flows are substantially independent of changes in market interest rates, therefore management do not believe that these risks are significant.

(b) Credit risk

The Group's and Company's maximum credit risk exposure is the fair value of each class of assets, US$ 50.7mm and US$100.9mm respectively as at 31 December 2008. Management has

Notes to the financial statements

at 31 December 2008

deemed that the carrying value approximates to the fair value of each class of assets.

The Group's principal financial asset is cash and credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions. It is the Group's policy to monitor the financial standing of these assets on an on going basis. Bank balances are held with reputable and established financial institutions.

The Group's secondary financial asset is cash receivable in respect of part paid shares, due from its principal shareholder and management, neither of which are felt to pose a significant risk.

(c) Liquidity risk

The Group believes it has sufficient capital to meet its capital commitments for the next 12 months as laid out in Note 22, as such it does not believe there is a significant risk

The Group expects to fund its exploration and development programme, as well as its administrative and operating expenses, through calendar year 2009 using a combination of existing working capital and proceeds from issue of shares.

If the Group is unsuccessful in generating enough liquidity to fund its expenditures, it will impact on the Group's ability to execute its long-term plans.

Further analysis of the maturity profile of liabilities is shown in Note 20.

3.2. Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated balance sheet, plus net debt.

Notes to the financial statements

at 31 December 2008

	Company Period ended 31 December 2008 US$000	*Group* Period ended 31 December 2008 US$000
Total borrowings	391	1,339
Less: cash and cash equivalents	13,911	14,726
Net debt	(13,520)	(13,387)
Total equity	181,944	191,958
Total capital and debt	168,424	178,571
Gearing ratio	**(0.08)**	**(0.07)**

3.3. Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The carrying value less impairment provision of trade and other receivables and trade and other payables approximate their fair values.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques.

4. Segment Information

During 2008 the Group operated predominantly in one business segment being the exploration of oil and gas and two geographical segments being Nigeria and Gabon.

5. Administration expenses

The following expenses are included in administration expenses:

	Company 28 February to 31 December 2008 US$000	*Group* 28 February To 31 December 2008 US$000
Auditors remuneration	80	80
Depreciation	-	11
Employment costs (see note 6)	-	2,052
Rentals	-	468
Write-off JDZ 3 bank guarantee	-	1,162
Adjustment to pre-acquisition exploration asset write off	-	(238)

Notes to the financial statements

at 31 December 2008

The write off of the JDZ 3 bank guarantee represents amounts deemed irrecoverable by management at 31 December 2008.

The adjustment to the pre-acquisition exploration asset write off relates to estimated expenditure on OML115 that was written off prior to the acquisition of Africa Energy Equity Resources Limited (see note 13), but has since been confirmed as over-estimated.

6. Staff costs

	Company 28 February to 31 December 2008 US$000	*Group* 28 February to 31 December 2008 US$000
Gross Salary	-	1,705
Social security	-	173
Pension contribution	-	125
Other employment expenses	-	49
	-	2,052
Average No of employees	-	7

The above figures include Directors emoluments.

Key personnel of both the Group and the Company are not provided with post employment or any termination benefits other than their defined contribution plan. The Company provides to management staff benefits that include medical support and death in service settlement.

7. Directors emoluments

	Company 28 February to 31 December 2008 US$000	*Group* 28 February to 31 December 2008 US$000
Gross Salary	-	403
Pension contribution	-	36
	-	439

Notes to the financial statements

at 31 December 2008

Directors are remunerated by the service company (Pan-Petroleum Limited, a UK registered company) and subsequently recharged to the parent.

8. Finance income

The finance income arises from the interest on funds in the Group's banking facilities and the Company's intercompany loans.

	Company *28 February to 31 December 2008 US$000*	**Group** *28 February to 31 December 2008 US$000*
Bank interest	218	222
Intercompany Loan interest		
Coralshell Ltd	21	-
Africa Energy Equity Resources Ltd	1,693	-
	1,932	222

Interest on the loans to both Coralshell Limited ('Coralshell') and Africa Energy Equity Resources Limited ('AEER') is charged at 1% per calendar month.

9. Finance costs

The finance charges arise from the operational use of the Company's banking facilities and from the use of cash made available from the parent undertaking. The amounts are shown below:

	Company *28 February to 31 December 2008 US$000*	**Group** *28 February to 31 December 2008 US$000*
Bank charges	49	134
	49	134

Notes to the financial statements

at 31 December 2008

10. Tax

Charge for period:	**Company** *28 February to 31 December 2008 US$000*	**Group** *28 February to 31 December 2008 US$000*
Current		
Cyprus	127	127
Overseas	-	128
Deferred		
Cyprus	-	-
Overseas	-	-
	127	255

The Groups effective tax rate differs from the theoretical amounts that would arise using the Cypriot tax rate (10%), applicable to the profits of the consolidated companies as follows:

	Company *28 February to 31 December 2008 US$000*	**Group** *28 February to 31 December 2008 US$000*
Profit before tax	(2,929)	(8,130)
Tax at domestic tax rates applicable to profits in respective countries (company - 10%; Group 21.8%)	(293)	(1,769)
Effects of:		
Expenses not deductible for tax purposes	229	378
Income not taxable	-	(223)
Intra group loan interest not deductible		492
Other income taxable	42	42
Special defence contribution	127	127
Forex losses	-	3
Tax effect of losses not utilised in the period	22	1,205
Total tax charge	127	255

Notes to the financial statements

at 31 December 2008

The Company has tax losses of approximately US$226,080 arising in Cyprus that is available indefinitely for offset against future taxable profits.

Deferred income tax asset

Deferred tax assets are recognised for the carry-forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profits will be available against which the unused tax losses/credits can be utilised. No deferred tax asset has been recognised as there is uncertainty as to its realisation. Management estimates that that unrecognised deferred tax asset of the Group is US$22,436,927.

11. Property, Plant and Equipment

GROUP	*IT and Computer Equipment US$000*	*Furniture, fixtures and fittings US$000*	*TOTAL US$000*
Cost			
At incorporation	-	-	-
Additions	41	30	71
Disposals	-	-	-
forex	-	-	-
At 31 December 2008	41	30	71
Depreciation			
At incorporation	-	-	-
Additions	11	-	11
Disposals			-
forex			-
At 31 December 2008	11	-	11
Net book value			
At 31 December 2008	30	30	60
At incorporation	-	-	-

Notes to the financial statements

at 31 December 2008

12. Intangible Assets

GROUP	*Exploration and Evaluation Assets US$000*
Cost	
At incorporation	-
Additions	148,626
Disposals	-
Adjustment to pre-acquisition exploration asset write off	238
forex	-
At 31 December 2008	148,864
Provision for impairment	
At incorporation	-
Additions	-
Disposals	-
forex	-
At 31 December 2008	-
Net book value	
At 31 December 2008	148,864
At incorporation	-

Notes to the financial statements

at 31 December 2008

13. Investment in subsidiary undertaking

COMPANY	*US$000*
Cost	
At incorporation	-
Additions	81,605
Disposals	-
Forex	-
At 31 December 2008	81,605
Impairment	
At incorporation	-
Additions	-
Disposals	-
Forex	-
At 31 December 2008	-
Net book value	
At 31 December 2008	81,605
At Incorporation	-

	Shareholding %	US$000
Investment in Pan-Petroleum Limited	100	-
Investment in Coralshell Ltd	100	5,000
Investment in African Energy Equity Resources Ltd	82	76,605

The Company has investments in Pan-Petroleum Limited ('PPL'), Coralshell Limited ('Coralshell') and Africa Energy Equity Resources Limited ('AEER'). The country of incorporation of PPL and AEER is the United Kingdom and Coralshell is incorporated in Cyprus. Post year end, five new subsidiaries were incorporated (see note 25).

On 7 March 2008, the Company completed the acquisition of the entire issued share capital of Coralshell, an unquoted Cypriot holding company, for a consideration of US$5,000,000 satisfied by cash. Coralshell holds a 100% interest in Pan-Petroleum Gabon BV, a company registered in the Netherlands. Pan-Petroleum Gabon BV holds the Group's 33.34% interest in the Dussafu permit in Gabon.

On the 15 September 2008, the Company acquired from funds managed by Sector Asset Management ('Sector') 433,667 shares in AEER which represented an 80.2% interest and assumed a loan of US$45.0 million. The acquisition was deemed to be an asset acquisition and was satisfied as described below:

Notes to the financial statements

at 31 December 2008

Consideration	**Description**	**Number of Shares Issued**	**Share Price**	**Value US$'000**
A1 Shares	316,667 shares in AEER	1,170,000	$50	58,500
A1 Shares	Assumption of $25.9mm loan from Sector	517,050	$50	25,853
Cash	117,000 shares in AEER	-	-	11,700
Cash	Assumption of $19.1mm loan from Sector	-	-	19,147
Total				115,200

On 18 December 2008, the Company subscribed for 64,049 shares of AEER, at a price of $100 per share for cash. Following the subscription the Company held 82.2% of the issued share capital of AEER. (See note 25, Post Balance Sheet Events, for subsequent movement in the assets.)

AEER is a company incorporated in the United Kingdom which, at the time of acquisition and at the balance sheet date, held interests in the following companies and assets:

Interest In	**Country of Incorporation**	**Percentage Held (%)**	**Asset Held**	**Interest in Asset**
Energy Equity Resources Aje Ltd	Nigeria	100%	OML 113	12.2% Profit Interest
EER Oil & Gas Limited	Nigeria	100%	OML 115	40%
Energy Equity Resources Oil & Gas Limited	Nigeria	100%	JDZ 3	10%
Energy Equity Resources (Cayman Islands) Limited	Cayman	100%	Syntroleum Nigeria Ltd (99%)	-
Energy Equity Resources (Nominees) Limited	Cayman	100%	Syntroleum Nigeria (1%)	-
Syntroleum Nigeria Limited	Nigeria	100% (Via the Cayman Island Subsidiaries)	OML 90 – Ajapa	40%

Notes to the financial statements

at 31 December 2008

The Directors have reviewed the investments in the Company and believe that there are no indications of impairment at Period end and after the balance sheet date. The Company has continued to invest in its subsidiaries in order to continue to maximise the value of its oil and gas exploration and production assets.

14. Cash and cash equivalents

	Company Year ended 31 December 2008 US$000	*Group Year ended 31 December 2008 US$000*
Cash at bank and on hand	13,911	14,726
Short term bank deposits	-	-
	13,911	14,726

15. Trade and other receivables

	Company Year ended 31 December 2008 US$000	*Group Year ended 31 December 2008 US$000*
Amounts owed by related parties:		
Coralshell (see note 19)	1,204	-
AEER (see note 19)	50,693	-
Sector call (see note 19)	34,245	34,245
Management loan (see note 19)	858	858
Other receivables	4	862
	87,004	35,965

Notes to the financial statements

at 31 December 2008

16. Trade and other payables

	Company Year ended 31 December 2008 US$000	*Group Year ended 31 December 2008 US$000*
Trade	-	2,921
Accruals	80	3,164
Amounts owed to related parties:		
Energy Equity Resources Ltd (see note 19)	-	1,339
Pan-Petroleum Ltd (see note 19)	391	-
	471	7,424

17. Share Capital

Group and Company

	31 December 2008 US$000
Share capital	535
Share premium	184,465
Authorised share capital (par €0.10)	185,000
Issued share capital (par €0.10)	185,000

	Note	*31 December 2008*
Number of shares in issue		3,700,000
Of which:		
Number of shares fully paid		2,537,050
Number of shares part paid	19(h), (i), (j)	1,162,950

The Company was incorporated on the 28th February 2008 with an authorised share capital of 1,000,000 ordinary shares with a par value of €0.10 each.

On incorporation, Sector Speculare (Private Equity) III ('Sector') subscribed for 990,000 A1 Shares and 10,000 A2 shares were subscribed by the founders, at a premium of €35.482 each.

Notes to the financial statements
at 31 December 2008

On 15 September 2008, the authorised share capital was increased to 3,700,000 ordinary shares with a par value of €0.10 each. The subsequent shares issue of 2,700,000 shares, at a premium of €35.482 each, was broken down as follows:

- Sector Speculare (Private Equity) III ('Sector') subscribed for 1,132,100 A1 shares;
- UBS AG in Trust for Sector Spesit I ('Sector') subscribed for 277,475 A1 shares;
- UBS AG in Trust for Sector Spesit II ('Sector') subscribed for 277,475 A1 shares;
- Sector Speculare (Private Equity) IV ('Sector') subscribed for 991,500 A1 shares; and
- Management subscribed for 21,450 A2 shares.

As at 31 December 2008 the shareholding of the Company was as follows:

	Type of shares	No of shares	% holding
Sector	A1	3,668,550	99.15%
Management	A2	31,450	0.85%
TOTAL		3,700,000	100%

The balance of share capital issued, but not yet paid is $35,103,000.

Each A1 and A2 share carries the right to exercise one vote in general meetings and ranks pari passu both in relation to any dividends or other distributions that are made by the Company and in all other respects, other than that a portion of A1 Shares are convertible to deferred shares in case of a Liquidity Event (a listing on a recognised stock exchange, a sale of more than 50% by value of the assets or a sale of more than 51% of the A1 shares). Deferred shares have no voting rights, rights to dividend distribution or profit participation, except for the return of subscribed capital in the case of the winding up of the Company.

18. Other reserves

The translation reserve relates to the revaluation of the Group's UK subsidiary, Pan-Petroleum Limited, whose functional currency is GBP.

The reconciliation of movements in equity and reserves is detailed in the Group statement of changes in equity.

19. Related party transactions

(a) The Company is invoiced on a monthly basis by Pan-Petroleum Limited ("PPL"), a service company incorporated in England and Wales, as defined in the terms of the service agreement between the Company and PPL. PPL is a wholly owned subsidiary of PPHC.

Notes to the financial statements
at 31 December 2008

At the period end the only amount that was outstanding in respect of this service charge was US$390,608 for the bonus accrued at year end.

The total amount charged to the Company during the course of the period was US$4,341,562.

(b) The Company has an intercompany loan receivable from its subsidiary, Coralshell.

As at 31 December 2008, the receivable amount was US$1,203,748.

Included in this amount is interest charged on the loan at 1% pcm, the total interest charge for the period was US$21,178.

(c) The Company has an intercompany loan receivable from its subsidiary, AEER.

As at 31 December 2008, the receivable amount was US$50,692,500.

Included in this amount is interest charged on the loan at 1% pcm, the total interest charge for the period was US$1,692,600.

(d) The Company has an investment in AEER of US$76,605,289 (see note 13).

(e) The Company has an investment in Coralshell of US$5,000,000 (see note 13).

(f) The Group has a loan payable of US$1,339,282 due to Energy Equity Resources Limited ("EER"), this was subsequently settled as part of the agreement dated 19 June 2009 (see note 25).

(g) The Group has an accrual of US$2,850,000 in respect of management fees owed to EER, this was settled subsequently as part of the agreement dated 19 June 2009 (see note 25).

(h) The Group and the Company have a call facility of US $34,245,000 from Sector in respect of the issue of A1 shares on 15 September 2008.

(i) The Group and the Company have a loan with P Vingoe of US $429,000, in respect of the unpaid portion of the issue of 10,725 A2 shares, issued on 15 September 2008, this was settled post year end (see note 25).

(j) The Group and the Company have a loan with N Dighe of US $429,000, in respect of the unpaid portion of the issue of 10,725 A2 shares, issued on 15 September 2008, this was partly settled post year end (see note 25).

20. Maturity of liabilities

The table below summarises the maturity profile of the Company's financial liabilities at 31 December 2008 based on contractual undiscounted payments.

Notes to the financial statements
at 31 December 2008

Year ended 31 December 2008

Group	On demand US$'000	Less than 3 months US$'000	Within 1 year US$'000	Total US$'000
Trade payables	2,921	-	-	2,921
Accruals and other payables	3,164	-	-	3,164
Tax payable	-	-	233	233
Loan due to related party	1,339	-	-	1,339
	7,424	-	233	7,657

Company	On demand US$'000	Less than 3 months US$'000	Within 1 year US$'000	Total US$'000
Accruals and other payables	80	-	-	80
Amounts owed to related parties	-	391	-	391
Tax payable	-	-	105	105
	80	391	105	576

21. Fair value estimation

The carrying amount of cash at bank, trade and other receivables, trade and other payables approximated their fair values.

22. Capital commitments

Amounts contracted in respect of ongoing projects of the Group, but not provided for in the financial statements at 31 December 2008 amounted to US$20.3mm.

23. Contingent liabilities

As at 31 December 2008, a cash call amounting to US$8.0mm was outstanding on the Ajapa licence, a default notice was subsequently issued per the terms of the JOA and the outstanding amount was uplifted by 800% to US$64mm. Following negotiations this amount was re-negotiated to US$18mm payable from post-tax operating cash flows. As at the date of signing of these financial statements the project is pre-operational and as such there is no liability recognised in the financial statements.

Notes to the financial statements
at 31 December 2008

24. Operating lease commitment

As at 31 December 2008, the Group had 4 months left to run on a one year office rental contract, which was signed by PPL during 2008.

	31 December 2008 US$'000
Lease commitment	164

25. Post-balance sheet events

AEER

On 24 February 2009 the Company subscribed for 205,425 shares of AEER at a price of $100 per share. Following the subscription the Company held 86.7% of the issued share capital of AEER.

On 19 June 2009 the Company, AEER, Energy Equity Resources (Norway) Ltd ('EERNL'), Energy Equity Resources Ltd ('EER'), Dr P. Vingoe, N. Dighe, A Robinson and O. Okhomina entered in to a Separation Deed which provided, inter alia, that:

a. AEER vend to EERNL its 100% interest in EER Oil & Gas Ltd the holder of a 40% stake in OML 115 and its contractual interest in JDZ 1 for $1.

b. The Company pay to EERNL US$2.8mm

c. AEER pay to EERNL US$2.875 million for services provided in managing AEER's assets between January and September 2008.

d. AEER pay US$1.077mm for past costs relating to OML 115.

e. EERNL vends to the Company 108,000 shares in AEER such that following the transaction the Company holds a 100% interest in AEER.

On 18 June 2009 the Company advanced a loan of $5mm to AEER and on 17 August 2009 the Company advanced a further US$5.5mm to AEER.

On 4 November 2009 the board of the Company approved the issue of 135,396 shares of AEER at US$100 per share, in respect of:

The cancellation of US$10.5mm outstanding loan principal and US$39,689 of interest on said loan, and US$3.0mm of additional capital.

Notes to the financial statements
at 31 December 2008

OML 113

Subsequent to the end of the Period the Group has invested US$3.86mm pursuant to various capital calls by the operator.

OML 90 – Ajapa

Subsequent to the end of the Period the Group has invested US$7.03mm pursuant to various capital calls by the operator and US$4.29mm to satisfy the Ajapa [1] Reserves Bonus Payment.

JDZ 3

Subsequent to the end of the Period the Group has invested US$4.86mm pursuant to various capital calls by the operator. These cash calls were, inter alia, for the Lemba #1 exploration well. The operator and the co-venturers are still determining the results and next actions relating to this well.

OML 115

Subsequent to the end of the Period the Group paid certain ongoing management expenses relating to OML 115. These were either used to reduce the compensation to EERNL or have been written off. See the above disclosure regarding the Settlement Deed of 19 June 2009.

Coralshell

On 17 February 2009, the Board of Directors agreed the conversion of the intercompany loan payable and accrued interest, amounting to US$1,203,748 (note 15), into equity. The sole shareholder resolved the increase of authorised share capital by the creation of ten ordinary shares with par value of US$1.00 each. The Board of Directors agreed the issue of one ordinary share with nominal value of US$1.00 and share premium of US$1,246,525, to be allotted to the Company.

Sale of Pan-Petroleum Gabon BV to Pan-Petroleum Gabon Holdings BV

On 4 November 2009 the Board of the Company approved the sale by Coralshell Ltd of Pan-Petroleum Gabon BV to Pan-Petroleum Gabon Holdings BV for its then fair value, being US$6.71mm. Pan-Petroleum Gabon Holdings BV is a wholly-owned subsidiary undertaking of the Company.

Prevail Energy Congo Ltd

On 20 May 2009 the Company entered in to a Heads of Terms with Prevail Energy Holdings Ltd whereby the Company agreed to acquire a 100% interest in Prevail Energy Congo Ltd, subject to contract. Pursuant to the Heads of Terms the Company agreed, inter alia to make a deposit payment of US$1.00mm once the transaction has closed. The security for the deposit was the entire issued share capital of Prevail Energy Congo Ltd.

The transaction is expected to close before 31 December 2009.

Notes to the financial statements
at 31 December 2008

Directors Shareholdings

As at 31 December 2008 P. Vingoe and N. Dighe each owned 10,725 A2 shares with unpaid premium, in the Company.

On 1 July 2009 they each vended 500 A2 shares to A Stobie and paid down the outstanding liability, US$20,000, in respect of those shares.

On 30 November 2009 P. Vingoe settled the balance of US$409,000.

On 3 December 2009 N. Dighe settled US$189,000, leaving a balance of $220,000 outstanding.

New subsidiaries

On 2 January 2009, Pan-Petroleum Holding B.V. ('PPHBV'), a 100% subsidiary of the Company, was incorporated in the Netherlands.

On 29 January 2009, Pan-Petroleum Nigeria Holding B.V. and Pan-Petroleum Gabon Holding B.V. ('PPGHBV'), 100% subsidiaries of PPHBV, were incorporated in the Netherlands.

On 13 February 2009, Pan-Petroleum Gryphon Marin B.V., a 100% subsidiary of PPGHBV, was incorporated in the Netherlands.

On 2 March 2009, Pan-Petroleum Services Holding B.V., a 100% subsidiary of PPHBV, was incorporated in the Netherlands.

Pan-Petroleum (Holding) Cyprus Limited

Consolidated Group and Company

Financial Statements

For the Year Ended 31 December 2009

Directors' report

GENERAL INFORMATION

Directors

Dr P. Vingoe	
Mr N Dighe	
Mr A Stobie	[appointed April 2009]
Mr J Kielland	[non-executive]
Mr T Pedersen	[non-executive]
Mr P de Genevraye	[non-executive]

Company Secretary
Coly Secretarial Limited
Elenion Building, 2nd Floor
5 Themistocles Dervis Street
CY-1066 Cyprus

Registered office
6 Karaiskaki Street
CY-3032
Limassol
Cyprus

Auditors
Ernst & Young Cyprus Limited
Certified Public Accountants and Registered Auditors
P.O. Box 21656
1511 Nicosia
Cyprus

Registered Number
224112

Directors' report

The Board of Directors present their report together with the audited financial statements of Pan-Petroleum (Holding) Cyprus Limited (the 'Company') and the consolidated Pan-Petroleum Group (the 'Group') for the year ended 31 December 2009 (the 'Year').

Principal activities, current position and development

The Company is incorporated in Cyprus as a limited liability company and its registered office and principal place of business is located at City House, 6 Karaiskakis Street, Limassol, Cyprus.

The principal activity of the Group is oil and gas exploration, development and production in Nigeria and Gabon. The geographic focus of the Group is West Africa.

The Group aims to acquire assets with existing or near-term production opportunities, field developments with related exploration potential and to build a small, but focused, exploration portfolio.

On the 22 January 2010 Company signed a business combination agreement with New Brazil Holdings, the parent undertaking of Norse do Brasil. Norse do Brasil is an exploration and production company with assets in Brazil.

Except for the geographic expansion the directors expect the principal activity to remain the same for the foreseeable future.

The financial statements of the Company and Group for the year ended 31 December 2009 were authorised for issue in accordance with a resolution of the directors on 2 February 2010.

Financial Results and dividends

The results of the Company and Group for the year are set out on pages 7 and 8. The profit of the Company for the year amounted to US$5,133,424 (2008: US$3,055,990 loss) and the loss for the equity holders of the Group amounted to US$37,243,000 (2008: US$8,385,000).

The Board of Directors does not propose the payment of a dividend for 2009 (2008: US$nil).

Risk management

In the ordinary course of business, the Company is exposed to a variety of risks. The most significant of these are interest rate risk, liquidity risk and foreign currency risk. These risks are identified, measured and monitored through various mechanisms across the Company in order to prevent undue risk concentrations. Detailed information relating to these risks is set out in note 3 of the financial statements.

Going Concern

The directors have prepared the accounts on a going concern basis, taking into account the potential value of the company's investments, after considering a number of options for raising the finance required to fund future spending, and receiving reassurances that financial support from the group's main shareholder, Sector Asset Management, will continue to be available in the meantime. Progress made since the year-end in relation to financing is outlined in note 27. These circumstances, which are explained further in note 1, constitute a

Directors' report

material uncertainty which may cast significant doubt about the Group's and the Company's ability to continue as a going concern.

Having considered the above, the directors are satisfied that sufficient financing options are available, to adopt the going concern basis in preparing the financial statements.

Share capital

The Company was incorporated in Cyprus as a private limited liability company in accordance with the provisions of the Companies Law, Cap.113 on 28 February 2008 and commenced business on the same day. At incorporation there was an authorised share capital of 1,000,000 ordinary shares at a par value of 0.10 Euros plus 10 deferred shares at par value of 0.10 Euros. At 31 December 2009 issued share capital was 3,701,840 ordinary shares (2008: 3,700,000 ordinary shares), see note 19 for further details.

Events after the balance sheet date

Events subsequent to the balance sheet date are described in note 27 to the financial statements.

Board of Directors

The Directors of the Company at 31 December 2009 and at the date of this report are shown on page 1.

There is no specific provision in the Company's articles of association for the rotation of the Directors. Consequently, the current directors will continue in office unless they resign or are removed by the shareholders.

During the year, there have been no significant changes in the distribution of responsibilities or the compensation of the Company's Board of Directors.

Auditors

The auditors of the Company, Ernst & Young Cyprus Limited, Certified Public Accountants and Registered Auditors, have expressed their willingness to continue in office. A resolution to reappoint Ernst & Young and to fix their remuneration will be put to the members at the forthcoming Annual General Meeting.

By order of the Board of Directors of the Company

Director

Nicosia

4 February 2010

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable Cyprus Companies Law Cap. 113, and the International Financial Reporting Standards as adopted by the European Union.

The directors are required to prepare financial statements for each financial year, which present fairly the financial position to the Company and the financial performance and cash flows of the Company for that period. In preparing the financial statements the directors are required to:

- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- state that the Company has complied with IFRS's, subject to any material departures disclosed and explained in the financial statements; and
- provide additional disclosures when compliance with the specific requirements in the IFRS's is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Cyprus Companies Law Cap. 113. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditors' Report

to the members of Pan-Petroleum (Holding) Cyprus Limited

Report on the Financial Statements

We have audited the consolidated financial statements of Pan-Petroleum (Holding) Cyprus Limited (the 'Company') and its subsidiaries (the 'Group') and the Company's separate financial statements on pages 7 to 53, which comprise the statements of financial position of the Group and the Company as at 31 December 2009, and the statements of comprehensive income, statements of changes in equity and cash flow statements of the Group and the Company for the year ended 31 December 2009, along with a summary of significant accounting policies and other explanatory notes.

Board of Directors' Responsibility for the Financial Statements

The Company's Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union ('EU') and the requirements of the Cyprus Companies Law, Cap. 113. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 the 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 the Board of Directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated and the Company's separate financial statements give a true and fair view of the financial position of the Group and the Company as at 31 December 2009, and the financial performance and the cash flows of the Group and the Company for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and the requirements of the Cyprus Companies Law, Cap. 113.

Independent Auditors' report

to the members of Pan-Petroleum (Holding) Cyprus Limited

Emphasis of matter

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the Group's ability to continue as a going concern. The circumstances explained in note 1, indicate the existence of a material uncertainty which may cast significant doubt about the Group's and the Company's ability to continue as a going concern.

The financial statements do not include the adjustments that would result if the Group and the Company were unable to continue as a going concern.

Report on Other Legal Requirements

Pursuant to the requirements of the Cyprus Company Law, Cap. 113, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company.
- The Company's financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the financial statements of the Group and the Company give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the report of the Board of Directors on pages 2 to 4 is consistent with the financial statements.

Other Matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 156 of the Cyprus Companies Law, Cap.113 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Ernst & Young Cyprus Limited
Certified Public Accountants and Registered Auditors

Nicosia

4 February 2010

Consolidated statement of comprehensive income

for the year ended 31 December 2009

	Notes	*1 January to 31 December 2009 US$000*	*28 February to 31 December 2008 US$000*
Total revenue	5	-	-
Administrative expenses		(9,674)	(8,267)
Impairment of intangible E&E assets		(24,489)	-
Operating loss	6	(34,163)	(8,267)
Expenses relating to acquisition of minority share of subsidiary	9	(2,873)	-
Finance income	10	67	222
Finance cost	11	(22)	(134)
Foreign exchange gain		477	49
Loss on ordinary activities before taxation		(36,514)	(8,130)
Income tax expense	12	(729)	(255)
Loss for the period		(37,243)	(8,385)
Other comprehensive *loss*:			
Foreign exchange movement in the period		38	(66)
Total comprehensive loss for the period		(37,205)	(8,451)
Total comprehensive loss attributable to:			
Equity holders		(37,205)	(8,451)
Total comprehensive loss for the period		(37,205)	(8,451)

Consolidated statement of changes in equity

for the year ended 31 December 2009

	Notes	*Share Capital US$000*	*Share Premium US$000*	*Accumulated Losses US$000*	*Translation Reserve US$000*	*Shareholders' Equity US$000*	*Minority Interest US$000*	*Total Equity US$000*
Balance at 28 February 2008		-	-	-	-	-	-	-
Capital contributions during the period	19	535	184,465	-	-	185,000	-	185,000
Minority share of acquisition of assets		-	-	-	-	-	15,409	15,409
Foreign exchange movement in the period		-	-	-	(66)	(66)		(66)
Total loss for the period		-	-	(8,385)	-	(8,385)	-	(8,385)
Balance at 31 December 2008		535	184,465	(8,385)	(66)	176,549	15,409	191,958
Capital contributions during the period	19	-	92	-	-	92	-	92
Minority share of acquisition of assets	9	-	-	15,409	-	15,409	(15,409)	-
Foreign exchange movement in the period					38	38	-	38
Total loss for the period		-	-	(37,243)	-	(37,243)	-	(37,243)
Balance at 31 December 2009		535	184,557	(30,219)	(28)	154,845	-	154,845

Company statement of comprehensive income

for the year ended 31 December 2009

	Notes	*1 January to 31 December 2009 US$000*	*28 February to 31 December 2008 US$000*
Total revenue	5	9,189	-
Administrative expenses		(9,300)	(4,918)
Operating loss	6	(111)	(4,918)
Finance income	10	5,565	1,932
Finance cost	11	(19)	(49)
Foreign exchange gain		442	106
Profit/(loss) on ordinary activities before taxation		5,877	(2,929)
Income tax expense	12	(744)	(127)
Profit/(loss) for the period		5,133	(3,056)
Other comprehensive *profit/(loss)*:			
Foreign exchange movement in the period		-	-
Total comprehensive profit/(loss) for the period		5,133	(3,056)
Total comprehensive *profit/(loss)* attributable			
Equity holders		5,133	(3,056)
Total comprehensive profit/(loss) for the period		5,133	(3,056)

Consolidated statement of financial position

at 31 December 2009

	Notes	31 December 2009 US$000	31 December 2008 US$000
Non-current assets			
Property, plant and equipment	13	373	60
Intangible E&E Assets	14	140,730	148,864
		141,103	148,924
Current assets			
Cash and cash equivalents	16	13,976	14,726
Trade and other receivables	17	4,181	35,965
		18,157	50,691
Total assets		159,260	199,615
Current liabilities			
Trade and other payables	18	3,475	7,424
Tax payable		903	233
		4,378	7,657
Non-current liabilities			
Deferred tax liability		37	-
		37	-
Total liabilities		4,415	7,657
Equity			
Share capital	19	535	535
Share premium	19,20	184,557	184,465
Accumulated losses	20	(30,219)	(8,385)
Translation reserve	20	(28)	(66)
		154,845	176,549
Minority Interest		-	15,409
Total equity		154,845	191,958
Total liabilities and equity		159,260	199,615

On 2 February 2010 the board of Directors of Pan-Petroleum Holdings (Cyprus) Limited authorised these financial statements for issue.

N Dighe
Director

A Stobie
Director

Company statement of changes in equity

for the year ended 31 December 2009

	Notes	Share Capital US$000	Share Premium US$000	Accumulated Losses US$000	Shareholders' Equity US$000
Balance at 28 February 2008		-	-	-	-
Capital contributions during the period	19	535	184,465	-	185,000
Total loss for the period		-	-	(3,056)	(3,056)
Balance at 31 December 2008		535	184,465	(3,056)	181,944
Capital contributions during the period	19	-	92	-	92
Total loss for the period		-	-	5,133	5,133
Balance at 31 December 2009		535	184,557	2,077	187,169

Companies which do not distribute at least 70% of their profits after tax, as defined by the Special Contribution for the Defence of the Cyprus Republic Law, during the two years after the year of assessment to which the profits refer, will be deemed to have distributed this amount as dividend. A special contribution for defence at 15% will be payable on such deemed dividend distribution to the extent that the shareholders (individuals and companies) at the end of the aforementioned period, are Cyprus tax residents. The amount of this deemed dividend distribution is reduced by any actual dividend paid out of the profits of the relevant year. This special contribution for defence is paid by the Company on account of the shareholders.

Company statement of financial position

at 31 December 2009

	Notes	31 December 2009 US$000	31 December 2008 US$000
Non-current assets			
Investments in subsidiary undertaking	15	104,079	81,605
		104,079	81,605
Current assets			
Cash and cash equivalents	16	12,064	13,911
Trade and other receivables	17	73,035	87,004
		85,099	100,915
Total assets		189,178	182,520
Current liabilities			
Trade and other payables	18	1,162	471
Tax payable		847	105
Total liabilities		2,009	576
Equity			
Share capital	19	535	535
Share premium	19, 20	184,557	184,465
Accumulated losses	20	2,077	(3,056)
Total equity		187,169	181,944
Total liabilities and equity		189,178	182,520

On 2 February 2010 the board of Directors of Pan-Petroleum Holdings (Cyprus) Limited authorised these financial statements for issue.

N Dighe

Director

A Stobie

Director

Consolidated cash flow statement

For the period ended 31 December 2009

	Notes	1 January to 31 December 2009 US$000	28 February to 31 December 2008 US$000
Cash flows from operating activities			
Loss before tax		(36,514)	(8,130)
Adjustments for non cash flow items:			
Finance income/ (expense)		(45)	(88)
Foreign exchange		38	(66)
Depreciation		135	11
Impairment		24,489	-
Gain on acquisition of subsidiary		2,873	-
Shares capital issued, in lieu of consultancy fees		92	-
Share capital issued, not yet paid		-	(863)
Net change in non-cash operating working capital items:			
Trade and other receivables		(3,011)	-
Trade and other payables		(6,843)	7,423
Cash generated from operations		(18,786)	(1,713)
Interest paid		(22)	(134)
Income taxes paid		(2)	(22)
Net cash from operating expenses		(18,810)	(1,869)
Cash flows from investing activities			
Interest received		21	222
Purchase of property, plant and equipment		(448)	(71)
Purchase of exploration assets		(16,355)	(49,632)
Cash acquired		-	531
Net cash used in investing activities		(16,782)	(48,950)
Cash flows from financing activities			
Proceeds from issue of share capital	19	34,843	65,544
Net cash used in financing activities		34,843	65,544
Net increase in cash and cash equivalents		(750)	14,726
Cash and cash equivalents at beginning of period		14,726	-
Cash and cash equivalents at end of period		13,976	14,726

Company cash flow statement

For the period ended 31 December 2009

	Notes	*1 January to 31 December 2009 US$000*	*28 February to 31 December 2008 US$000*
Cash flows from operating activities			
Profit/(loss) before tax		5,877	(2,929)
Adjustments for non cash flow items:			
Finance income/ (expense)		(5,546)	(1,884)
Foreign exchange		442	106
Shares capital issued, in lieu of consultancy fees		92	-
Share capital issued, not yet paid		-	35,103
Net change in non-cash operating working capital items:			
Trade and other receivables		(19,546)	(59,436)
Trade and other payables		248	364
Cash generated from operations		(18,433)	(28,676)
Interest paid		28	(49)
Income taxes paid		(2)	(22)
Net cash from operating expenses		(18,407)	(28,747)
Cash flows from investing activities			
Interest received		2,285	219
Cash acquired		-	531
Capital contributions to subsidiaries		(20,568)	-
Acquisition of subsidiary		-	(23,636)
Net cash used in investing activities		(18,283)	(22,886)
Cash flows from financing activities			
Proceeds from issue of share capital	19	34,843	65,544
Net cash used in financing activities		34,843	65,544
Net increase in cash and cash equivalents		(1,847)	13,911
Cash and cash equivalents at beginning of period		13,911	-
Cash and cash equivalents at end of period		12,064	13,911

Notes to the financial statements

at 31 December 2009

1. General information

1.1 Material uncertainty

The directors have prepared the accounts on a going concern basis and consider this appropriate in light of the company's planned business combination and capital raising.

Management have carefully considered future cash requirements and recognise that cash commitments are in excess of existing available funds. The directors are considering a number of fundraising alternatives and have concluded that the most appropriate is as described below.

On 14 January 2010 the Board of Pan-Petroleum Holding (Cyprus) Limited, approved the terms of, and signed, a Business Combination Agreement ("BCA"). Following the completion of the business combination PPHCL shareholders will own approximately 50%, subject to adjustment, of a newly incorporated Norwegian entity ("Newco") which owns all the share capital of PPHCL and Norse do Brazil, currently a subsidiary of Norse Energy Corporation ("NEC").

Under the terms of the BCA, prior to completion, a minimum of $65m is to be raised to fund the combined business until end 1Q 2011. This is to be raised by NEC, Sector Asset Management ("Sector"), the principal shareholder of PPHCL, and by way of a private placement. The BCA requires successful fundraising from all 3 of these sources. The directors believe that NEC and Sector have the necessary funds available to meet their commitments.

The directors therefore are confident of continuing funding from their main shareholder Sector Asset Management, on the assumption that the business combination and private placement referred to above is successfully completed.

The directors have considered and are satisfied that sufficient alternative financing options are also available should the BCA fail to proceed and remain confident of support from Sector under this situation. These alternative arrangements would necessitate a lower level of funding by excluding the cash commitments associated with NEC. The alternative fundraising would focus on a London private placement or a potential sale of an asset to fund the remaining requirements.

Having considered the above, the directors are satisfied that sufficient financing options will be available, or have been put in place, to adopt the going concern basis in preparing the financial statements. In taking this view, the directors have made reference to the financial activities outlined in the subsequent events note.

The circumstances described above, namely the uncertainty surrounding the successful conclusion of the BCA and the continued availability of funding from Sector, or in the event that the BCA fails to proceed, the successful implementation of alternative financing options described above, together indicate the existence of material uncertainty which may cast significant doubt about the company's ability to continue as a going concern.

In the event that the PPHCL fails to secure finance in advance of the BCA or execute alternate plans, this will affect the going concern basis of preparation. The financial statements do not include the adjustments that would result if the company were unable to continue as a going concern.

Notes to the financial statements

at 31 December 2009

1.2 Corporate information

Pan-Petroleum Holding (Cyprus) Limited, (the 'Company' or 'Pan-Petroleum') is a private limited liability company registered in Cyprus with registered number 224112.

The principal activities of the Company and its subsidiaries (the 'Group') are the acquisition, exploration and development of hydrocarbon assets and production of hydrocarbons in West Africa.

Pan-Petroleum Holding (Cyprus) Limited, was incorporated in Cyprus on 28 February 2008 as a private company with limited liability under the Companies Law, Cap. 113. Its registered office is at 6 Karaiskaki Street, CY-3032, Limassol, Cyprus.

The principal shareholder of the Group is a selection of funds managed by Sector Asset Management ('Sector'). The funds which hold shares in the Group are:

- Sector Speculare (Private Equity) III
- UBS AG in Trust for Sector Spesit I
- UBS AG in Trust for Sector Spesit II
- Sector Speculare (Private Equity) IV

These financial statements include the Group consolidated financial statements and the parent company's financial statements (collectively referred to as 'financial statements') and were authorised for issue by the Board of Directors on 2 February 2010.

2. Summary of significant accounting policies

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

2.1. Basis of preparation

The financial statements of Pan-Petroleum have been prepared in accordance with International Financial Reporting Standards, as adopted by the European Union (IFRSs as adopted by the EU). In addition, the financial statements have been prepared in accordance with the requirements of the Cyprus Companies Law, Cap 113.

The financial statements have been prepared under the historical cost convention.

Certain prior year comparatives have been restated to conform with 2009 presentation.

(a) Standards, amendment and interpretations effective in 2009

- IAS 1 (Revised) 'Presentation of Financial Statements' (effective date – annual periods beginning on or after 1 January 2009): The Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only

Notes to the financial statements

at 31 December 2009

details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Company has shown one statement of comprehensive income.

- IFRS 8 Operating segments (effective date - annual periods beginning on or after 1 January 2009): The adoption of this standard has not had any effect on the financial performance or position of the Group but has given rise to additional disclosures
- IAS 23 Borrowing Costs (effective date – annual periods beginning on or after 1 January 2009): An entity is required to capitalise borrowing costs as part of the cost of assets that take a substantial period of time to get ready for use or sale. The revised standard applies to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. Management expects this amendment will not impact the Group, as the Group does not have any borrowing costs on qualifying assets

(b) Standards, amendments and interpretations effective in 2009 but not relevant

Other standards that became effective in 2009 did not have any impact on the accounting policies, financial position or performance of the Group or Company.

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group:

- IFRS 3 Business Combinations and IAS 27 (Revised) 'Consolidated and Separate Financial Statements' (effective date –1 July 2009): The changes to IFRS 3R and IAS 27R will affect future acquisitions or loss of control and transactions with minority interests
- IFRS 8 Operating segments (effective date - 1 January 2010): disclosure of information about segment assets
- IAS 7 'Statement of Cash Flows' (effective date – 1 January 2010): classification of expenditure on unrecognized assets
- IAS 17 Leases (effective date – 1 January 2010): classification of leases of land and buildings

(d) Standards, amendments and interpretations to existing standards that are not yet effective and not relevant for the Group's operations:

- IFRS 1 Additional exemptions for first time adopters (effective date – 1 January 2010)
- IFRS 2 Share based payments (effective date – 1 July 2009): scope of IFRS 2 and revised IFRS 3
- IFRS 2 Group cash-settled share-based payment transactions (effective date - 1 January 2010)

Notes to the financial statements

at 31 December 2009

- IFRS 5 Non-current assets held for sale and discontinued operations (effective date – 1 January 2010): disclosures of non-current assets (or disposal groups) classified as held for sale or discontinued operations
- IFRS 9 Financial instruments: classification and measurement (effective date - 1 January 2013)
- IAS 1 (Revised) 'Presentation of Financial Statements' (effective date – 1 January 2010): current/non-current classification of convertible instruments
- IAS 18 Revenue (effective date – 1 January 2010): determining whether an entity is acting as a principal or as an agent
- IAS 24 Related party disclosures (effective date – 1 January 2011)
- IAS 36 Impairment of Assets (effective date – 1 January 2010): unit of accounting for goodwill impairment test
- IAS 38 Intangible Assets (effective date – annual periods beginning on or after 1 July 2009): additional consequential amendments arising from revised IFRS 3 and measuring the fair value of an intangible asset acquired in a business combination
- IAS 39 Financial instrument recognition & measurement (effective date – 1 January 2010): treating loan repayment penalties as closely related embedded derivatives; scope exemption for business combination contracts; and cash flow hedge accounting
- IFRIC 9 Reassessment of Embedded Derivatives (effective date - 1 July 2009): scope of IFRIC 9 and revised IFRS 3
- IFRIC 14 Prepayments of a minimum funding requirement (effective date – 1 January 2011)
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective - 1 July 2009): amendment to the restriction on the entity that can hold hedging instruments
- IFRIC 17 Distribution of non-cash assets to owners (effective date - 1 July 2009)
- IFRIC 19 Extinguishing financial liabilities with equity instruments (effective date – 1 July 2010)

2.2 Significant accounting judgments, estimates and assumptions

Estimates and assumptions

The preparation of the financial statements in conformity with IFRS 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.

Notes to the financial statements

at 31 December 2009

In particular, information about significant areas of estimation uncertainty considered by management in preparing the consolidated financial statements is described in the following notes:

Note 12 - Tax

Note 14 – Oil and gas properties and impairment

Note 15 -Impairment of investments in subsidiaries

Note 24 – Capital commitments

Note 25 – Carried interest arrangement

Judgements

In the process of applying the Group's accounting policies, the directors have made the following judgements, 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.

Decommissioning costs

Decommissioning costs will be incurred by the Group at the end of the operating life of certain of the Group's facilities and properties. The ultimate decommissioning 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.

Income taxes

The Group recognises 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

Notes to the financial statements

at 31 December 2009

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 realise the net deferred tax assets recorded at the balance sheet date 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 regarding revenue based payments

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.

2.3 Consolidation

(a) Subsidiaries

The consolidated financial statements include the financial statements of the Company and its subsidiaries. Subsidiaries are all entities in which the Group directly or indirectly owns more than 50 percent of the voting stock or otherwise has the power to govern the financial and operating policies. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The minority share in a subsidiary's assets is reported as a separate item in the Group's equity. Acquisition of the minority shares can result in goodwill if the cost exceeds the carrying amount of the acquired assets. Where the cost is below the carrying amount of the acquired asset, the subsequent gain is recognised in retained earnings within equity.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered.

In the parent company stand alone financial statements, subsidiaries are stated at cost, being the fair value of the consideration given, less any impairment in value.

(b) Segment reporting

A reportable segment is a business segment or a geographical segment identified based on the foregoing definitions for which segment information is required to be disclosed.

The operations of the Group comprise one class of business, being oil and gas exploration, development and production and in only two geographic areas: Nigeria and Gabon.

For management purposes the Group reports capital expenditure by licence: Dussafu Marin, JDZ3, OML90 –Ajapa, OML 115 and OML113.

2.4. Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using

Notes to the financial statements

at 31 December 2009

the currency of the primary economic environment in which the entity operates ('the functional currency'). The Group's consolidated financial statements are presented in US dollars, which is the parent company's functional currency: all values are rounded to the nearest thousand (US$000), except when otherwise indicated.

The functional currency of the Group's subsidiaries incorporated in Gabon, Nigeria, Cyprus, Holland and the Cayman Islands is the US dollar ('US$'). The functional currency of the Group's British subsidiary is the Pound Sterling ('GBP').

The closing rates used as at 31 December 2009 was:

- US$1.00 : GBP 0.62

The closing rates used as at 31 December 2008 was:

- US$1.00 : GBP0.68

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

2.5. Exploration & Evaluation

The Company 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 capitalised when it is considered probable that future economic benefits will be recoverable. Until such time, E&E expenditure is expensed as incurred: regardless of the probability that future economic benefits will be recoverable, pre-licence costs are expensed as incurred.

E&E expenditure capitalised as intangible assets include license acquisition costs, geological and geophysical studies, seismic data acquisition and interpretation, exploration drilling.

Notes to the financial statements

at 31 December 2009

Exploration and evaluation expenditure which is not sufficiently closely related to a specific mineral resource to support capitalisation 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.

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 capitalised costs are charged to expense after the conclusion of appraisal activities.

(a) 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 capitalised 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.

(b) Oil & gas production assets

Development and production assets are accumulated generally on cash generating unit basis and represent the cost of developing the commercial reserves discovered and bringing them in to 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, finance costs capitalised and the cost of recognising 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.

(c) Depreciation/amortisation

Oil and gas properties and intangible assets are depreciated or amortised 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.

(d) 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

Notes to the financial statements

at 31 December 2009

amount. The recoverable amount is the higher of the exploration and evaluation assets' fair value less costs to sell and their value in use.

(e) 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 future 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 the cash flows of each field are interdependent.

2.6. 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.

2.7. 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. Land is not depreciated. Depreciation of other assets is calculated on a straight line basis as follows:

IT and computer equipment	3 years
Furniture, fixtures & fittings	3 years

2.8. Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. This

Notes to the financial statements

at 31 December 2009

category comprises derivatives unless they are effective hedging instruments.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. This category comprises trade and other receivables and cash.

2.9. Derivative financial instruments

Derivative financial assets and financial liabilities are financial instruments whose value changes in response to an underlying variable, require little or no initial investment and are settled in the future. The Company may use derivatives such as foreign exchange forward contracts to minimize risks of changes in foreign exchange rates. The Group would not apply hedge accounting in respect of forward foreign exchange contracts as the management believes that any future derivative would not qualify for hedge accounting. Consequently, movements in the fair value of derivative instruments would be immediately recognized in the income statement.

2.10. Acquisitions, asset purchases and disposals

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 assets 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, no deferred tax gross up arises, and the consideration is allocated to the assets and liabilities purchased on an appropriate basis.

Proceeds on disposal 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 income statement.

2.11. Trade and other receivables

Trade and other receivables are presented at recoverable amounts. 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.

2.12. Cash and cash equivalents

Cash and cash equivalents includes cash at hand, and deposits held on call with banks.

2.13. Share capital

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Notes to the financial statements

at 31 December 2009

2.14. Trade payables

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

2.15. Borrowings

All borrowings are initially recorded at fair value. Interest-bearing loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis to the income statement 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. Differences arising on the discounting of loans from owners are recorded as separate component of equity.

2.16. Current and deferred income tax

Current tax is the amount expected to be paid in respect of taxable profits for the current and prior periods. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group's subsidiaries and operate and generate taxable income.

Deferred income tax is provided in full, using the liability method for tax loss carry forward and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting, nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

2.17. Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of oil in the ordinary course of the Group's activities. Revenue is shown net of value added tax, returns, rebates and discounts and after eliminating sales within the Group.

(a) Sales of goods

Revenue from the sale oil is recognised when goods are delivered to customers and title has transferred. Revenue is stated net of value-added tax.

(b) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

Notes to the financial statements
at 31 December 2009

2.18. Leases

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 capitalised 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 income statement.

Capitalised leased assets are depreciated over the shorted 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 recognised as an expense in the income statement on a straight line basis over the lease term.

2.19. Share-based payment transactions

Employees of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

3. Financial risk management

3.1. Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, price risk, and cash flow interest rate risk), credit risk, and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk
The Group is exposed to foreign exchange risk arising from currency exposures, primarily with respect to the pound Sterling. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities. Management do not believe that these risks are significant.

(ii) Price risk
The Group is not exposed to price risk as it does not have financial instruments of which the fair values or future cash flows will be affected by changes in market prices.

(iii) Cash flow and fair value interest rate risk
As the Group has no significant interest-bearing assets and liabilities, the Group's income and operating cash flows are substantially independent of changes in market interest rates, therefore management do not believe that these risks are significant.

Notes to the financial statements
at 31 December 2009

(b) Credit risk

The Group's and Company's maximum credit risk exposure is the fair value of each class of assets, US$ 18.2mm and US$75.9mm respectively as at 31 December 2009 (2008: US$50.7mm Group and US$100.9mm Company). Management has determined that the carrying value approximates to the fair value of each class of assets.

The Group's principal financial asset is cash and credit risk arises from cash and cash equivalents, and deposits with banks and financial institutions. It is the Group's policy to monitor the financial standing of these assets on an ongoing basis. Bank balances are held with two different reputable and established financial institutions.

The Group's secondary financial asset is cash receivable in respect of part paid shares, due from its principal shareholder and management, neither of which are felt to pose a significant risk.

The Company's principal financial asset relates to intercompany receivables from 11 different Group subsidiaries, none of which are felt to pose a significant risk.

(c) Liquidity risk

The Group believes that there are sufficient financing options available, or in place to meet its capital commitments for the next 12 months as laid out in Note 24, as such it does not believe there is a significant risk.

Per note 1, if the Group is unsuccessful in generating enough liquidity to fund its expenditures, it will impact on the Group's ability to execute its long-term plans.

Further analysis of the maturity profile of liabilities is shown in Note 22.

3.2. Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated statement of financial position, plus net debt.

Notes to the financial statements

at 31 December 2009

Group	At 31 December 2009 US$000	At 31 December 2008 US$000
Total borrowings	-	1,339
Less: cash and cash equivalents	13,976	14,726
Net debt	(13,976)	(13,387)
Total equity	154,845	191,958
Total capital and debt	140,869	178,571
Gearing ratio	**(0.10)**	**(0.07)**

Company	At 31 December 2009 US$000	At 31 December 2008 US$000
Total borrowings	249	391
Less: cash and cash equivalents	12,064	13,911
Net debt	(11,815)	(13,520)
Total equity	187,169	181,944
Total capital and debt	175,354	168,424
Gearing ratio	**(0.06)**	**(0.07)**

3.3. Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The carrying value less impairment provision of trade and other receivables and trade and other payables approximate their fair values.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques.

4. Segment Information

The Group operated predominantly in one business segment being the exploration of oil and gas, which is split by licence for management purposes and two geographical segments being Nigeria and Gabon.

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

Notes to the financial statements

at 31 December 2009

- The Dussafu segment holds the Group's 33.3% working interest in the Dussafu Marin exploration licence in Gabon.
- The JDZ 3 segment holds the Group's 10% working interest in the JDZ 3 exploration licence in Nigeria.
- The OML 90 – Ajapa segment holds the Group's 40% working interest in the OML 90 - Ajapa exploration licence in Nigeria.
- The OML 113 segment holds the Group's 12.5% profit interest in the OML 113exploration licence in Nigeria.
- The OML 115 segment held the Group's 40% working interest in the OML 115 exploration licence in Nigeria, which was disposed of during the year.
- The 'Other' category consists of head office and service company operations that are not directly attributable to the other segments.

Management monitors the operating results of business segments separately for the purpose of making decisions about resources to be allocated and of assessing performance. Segment performance is evaluated based on capital expenditure.

Group operating segments – 31 December 2009

	Gabon	Nigeria						
	Dussafu	JDZ 3	OML 90 - Ajapa	OML 113	OML115	Other	Eliminations & Adjustments	Consolidated
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
Profit before tax	-	(14,174)	(16,644)	(2,231)	1,347	10,597	-	(21,105)
Impairment of E&E assets	-	12,130	12,359	-	-	-	-	24,489
Gain to asset on acquisition of minority share of subsidiary	-			15,409		-	-	15,409
Gain on loans on acquisition of minority share of subsidiary	-	1	20	-	1,318	-	-	1,339
Expenses relating to gain on acquisition of minority share of subsidiary	-	-	-	-	(4,212)	-	-	(4,212)
Segment assets	7,032	4,000	38,152	105,693	-	16,536	(12,152)	159,261
Additions to property, plant and equipment and intangible assets	933	4,911	7,322	3,191	-	448	-	16,805

Notes to the financial statements

at 31 December 2009

Group operating segments – 31 December 2008

	Gabon		Nigeria					
	Dussafu	JDZ 3	OML 90 - Ajapa	OML 113	OML115	Other	Eliminations & Adjustments	Consolidated
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
Profit before tax	-	(1,162)	-	-	238	(7,206)	-	(8,130)
Write-off and adjustments	-	(1,162)	-	-	238	-	-	(924)
Segment assets	6,098	13,565	64,313	77,654	-	50,137	(12,152)	199,615
Additions to property, plant and equipment and intangible assets	6,098	7,218	35,040	100,508	-	71	-	148,935

Group geographic information

	31 December 2009	31 December 2008
	US$000	US$000
Location of non-current assets		
Nigeria	133,698	142,766
Gabon	7,032	6,098
United Kingdom	373	60
Other	-	-
	141,103	148,924

5. Revenue

Company

	1 January to 31 December 2009	28 February To 31 December 2008
	US$000	US$000
Sales to related parties (see note 21)		
Energy Equity Resources Aje	2,231	-
Syntroleum Nigeria Limited	4,290	-
Energy Equity Resources Oil & Gas	2,037	-
Pan-Petroleum Gabon B.V.	631	-
	9,189	-

Notes to the financial statements

at 31 December 2009

6. Operating loss

Operating loss is stated after charging:

Group	*1 January to 31 December 2009*	*28 February To 31 December 2008*
	US$000	*US$000*
Auditors remuneration	230	80
Depreciation	135	11
Ex-gratia payments (see note 21p)	675	-
Employment costs (see note 7)	3,618	2,052
Rentals	553	468
Write-off JDZ 3 bank guarantee	-	1,162
Impairment of JDZ 3	12,130	
Impairment of OML 90 - Ajapa	12,359	
Adjustment to pre-acquisition exploration asset write off	-	(238)

Company	*1 January to 31 December 2009*	*28 February To 31 December 2008*
	US$000	*US$000*
Auditors remuneration	206	80
Employment costs (see note 7)	-	-

The JDZ 3 carrying value of US$12,129,722 has been written down to zero (see note 4). This reflects the uncertainty regarding the ability to recover the asset value following the recent drilling campaign on the Joint Development Zone.

The carrying value of OML 90 – Ajapa has been impaired by US$12,359,817 (see note 4) from US$42,359,817 to US$30,000,000 to reflect the fair value of unsolicited offers received by the Company, less costs to sell.

The write off of the JDZ 3 bank guarantee represents amounts deemed irrecoverable by management at 31 December 2008.

The adjustment to the pre-acquisition exploration asset write off, at 31 December 2008, relates to estimated expenditure on OML115 that was written off prior to the acquisition of Africa Energy Equity Resources Limited (see note 15), but has since been confirmed as over-estimated.

Notes to the financial statements

at 31 December 2009

7. Staff costs

Group	*1 January to 31 December 2009 US$000*	*28 February to 31 December 2008 US$000*
Gross Salary	2,593	1,705
Social security	450	173
Pension contribution	471	125
Other employment expenses	104	49
	3,618	2,052
Average No of employees	13	7

The Company has no staff expenses during either year.

The above figures include Directors emoluments.

Key personnel of both the Group and the Company are not provided with post employment or any termination benefits other than their defined contribution plan. The Company provides to management staff benefits that include medical support and death in service settlement.

8. Directors emoluments

Group	*1 January To 31 December 2009 US$000*	*28 February to 31 December 2008 US$000*
Gross Salary	876	385
Consultancy fees	214	18
Pension contribution	270	36
	1,360	439

Notes to the financial statements

at 31 December 2009

Company	*1 January To 31 December 2009 US$000*	*28 February to 31 December 2008 US$000*
Gross Salary	-	-
Consultancy fees	214	18
Pension contribution	-	-
	214	18

Executive Directors are remunerated by the service company (Pan-Petroleum Limited, a UK registered company) and subsequently recharged to the parent.

During 2009, Mr T Pedersen and Mr P de Genevraye each sacrificed US$23,000 of their consultancy fees and in return will each be issued with 920 A1 shares in 2010 at a consideration of US$50 per share, this cost has been accrued in 2009.

During 2008, Mr T Pedersen and Mr P de Genevraye each sacrificed US$23,000 of their consultancy fees and in return were each issued with 920 A1 shares in April 2009 (see note 19) at a consideration of US$50 per share, this cost has been charged in 2009.

9. Gain on acquisition of minority share of subsidiary

The gain on the acquisition of the minority share of subsidiary arises as a result of two events, the rights issue on 24 February 2009 which was not subscribed to by EERNL and therefore increased the Company's shareholding in AEER by 4.5% to 86.7% (see note 15) and the acquisition of the remaining 13.3% minority share of AEER on 19 June 2009 (see note 15).

The gain is broken down as follows:

	US$000
Gain to asset on acquisition of 4.5% minority share of subsidiary	3,896
Gain to asset on acquisition of 13.3% minority share of subsidiary	11,513
Charged to equity	15,409
Cash consideration	(2,800)
Past costs relating to OML115 (per settlement agreement)	(1,077)
Past costs relating to OML115	(335)
EER loan write off	1,339
Expenses relating to acquisition of subsidiary	(2,873)
	12,536

Notes to the financial statements

at 31 December 2009

10. Finance income

The finance income arises from the interest on funds in the Group's banking facilities and the Company's intercompany loans.

Group	*1 January to 31 December 2009 US$000*	*28 February to 31 December 2008 US$000*
Bank interest	67	222
	67	222

Company	*1 January To 31 December 2009 US$000*	*28 February to 31 December 2008 US$000*
Bank interest	67	218
Intercompany Loan interest		
Coralshell Ltd (note 21)	16	21
Africa Energy Equity Resources Ltd (note 21)	5,482	1,693
	5,565	1,932

Interest on the loan to Coralshell Limited ('Coralshell') is charged at 1% per calendar month. Interest on loans to Africa Energy Equity Resources Limited ('AEER'), are charged at 1% per calendar month for the US$45mm loan and at LIBOR + 1% pa on the balance.

11. Finance costs

The finance charges arise from the operational use of the Company's banking facilities and from the use of cash made available from the parent undertaking. The amounts are shown below:

Notes to the financial statements

at 31 December 2009

Group	*1 January to 31 December 2009 US$000*	*28 February to 31 December 2008 US$000*
Bank charges	22	134
	22	134

Company	*1 January to 31 December 2009 US$000*	*28 February to 31 December 2008 US$000*
Bank charges	6	49
Intercompany Loan interest		
Coralshell Ltd (note 21)	13	-
	19	49

12. Tax

Group

Charge for period:	*1 January to 31 December 2009 US$000*	*28 February to 31 December 2008 US$000*
Current		
Cyprus	744	127
Overseas	(51)	128
Deferred		
Cyprus	-	-
Overseas	36	-
	729	255

Notes to the financial statements
at 31 December 2009

The Groups effective tax rate differs from the theoretical amounts that would arise using the domestic tax rates applicable to the profits in respective countries, as follows:

	Group *1 January To 31 December 2009 US$000*	***Group*** *28 February to 31 December 2008 US$000*
Profit/(loss) before tax	(36,514)	(8,130)
Tax at domestic tax rates applicable to profits in respective countries (2009: 32.5%; 2008:21.8%)	(11,883)	(1,769)
Effects of:		
Expenses not deductible for tax purposes	11,893	378
Income not taxable	(860)	(223)
Intra group loan interest not deductible	1,535	492
Other income taxable	62	42
Special defence contribution	48	127
Foreign exchange losses	4	3
Utilisation of previously unrecognised tax losses	(187)	-
Tax effect of losses not utilised in the period	216	1,205
Prior year adjustment	(99)	-
Total tax charge	729	255

Company

Charge for period:	*1 January to 31 December 2009 US$000*	*28 February to 31 December 2008 US$000*
Current		
Cyprus	744	127
Overseas	-	-
Deferred		
Cyprus	-	-
Overseas	-	-
	744	127

Notes to the financial statements
at 31 December 2009

	Company *1 January To 31 December 2009 US$000*	***Company*** *28 February to 31 December 2008 US$000*
Profit before tax	5,877	(2,929)
Tax at domestic tax rates applicable to profits in Cyprus (10%)	588	(293)
Effects of:		
Expenses not deductible for tax purposes	233	229
Other income taxable	62	42
Special defence contribution	48	127
Utilisation of previously unrecognised tax losses	(187)	-
Tax effect of losses not utilised in the period	-	22
Total tax charge	744	127

The Company has no tax losses arising in Cyprus that are available indefinitely for offset against future taxable profits (2008: US$226,080).

Deferred income tax liability - group

	At 31 December 2009 US$000	*At 31 December 2008 US$000*
Accelerated depreciation for tax purposes	27	-
Prior year adjustment to accelerated depreciation for tax purposes	9	-
Deferred tax expense	36	-

Reconciliation of deferred tax liability:	*2009 US$000*	*2008 US$000*
At 1 January	-	
Tax expense recognised during the period	36	-
Foreign exchange	1	-
At 31 December	37	-

Notes to the financial statements

at 31 December 2009

None of the subsidiaries have unrecognised deferred tax liabilities.

Deferred income tax asset - group

Deferred tax assets are recognised for the carry-forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profits will be available against which the unused tax losses/credits can be utilised. No deferred tax asset has been recognised as there is uncertainty as to its realisation. Management estimates that that unrecognised deferred tax asset of the Group is US$3,016,031 (2008: US$4,933,610).

13. Property, Plant and Equipment

Group

	IT and Computer Equipment US$000	*Furniture, fixtures and fittings US$000*	*TOTAL US$000*
Cost			
At incorporation	-	-	-
Additions	41	30	71
At 31 December 2008	41	30	71
Additions	311	137	448
At 31 December 2009	352	167	519
Depreciation			
At incorporation	-	-	-
Additions	11	-	11
At 31 December 2008	11	-	11
Additions	93	42	135
At 31 December 2009	104	42	146
Net book value			
At 31 December 2009	248	125	373
At 31 December 2008	30	30	60

The Company has no property, plant and equipment.

Notes to the financial statements

at 31 December 2009

14. Intangible Assets

Group

	Exploration and Evaluation Assets US$000
Cost	
At incorporation	-
Additions	148,626
Adjustment to pre-acquisition exploration asset write off	238
At 31 December 2008	148,864
Additions	16,355
At 31 December 2009	165,219
Provision for impairment	
At incorporation	-
Additions	-
At 31 December 2008	-
Additions (note 6)	24,489
At 31 December 2009	24,489
Net book value	
At 31 December 2009	140,730
At 31 December 2008	148,864

The Company has no intangible assets.

Notes to the financial statements

at 31 December 2009

15. Investment in subsidiary undertaking

Company

	US$000
Cost	
At incorporation	-
Additions	81,605
At 31 December 2008	81,605
Additions	22,474
At 31 December 2009	104,079
Impairment	
At incorporation	-
Additions	-
At 31 December 2008	-
Additions	-
At 31 December 2009	-
Net book value	
At 31 December 2009	104,079
At 31 December 2008	81,605

	2009 Shareholding		2008 Shareholding	
	%	US$000	%	US$000
Investment in Pan-Petroleum Limited	100	-	100	-
Investment in Coralshell Ltd	100	6,906	100	5,000
Investment in Pan-Petroleum Holding B.V.	100	25	-	-
Investment in African Energy Equity Resources Ltd	100	97,148	82.2	76,605

Notes to the financial statements

at 31 December 2009

Subsidiaries as at 31 December 2009

Company Name	% held	Country of incorporation	Asset held
Pan-Petroleum Limited	100	United Kingdom	-
Coralshell Limited	100	Cyprus	Pan-Petroleum Gabon B.V.
Pan-Petroleum Gabon B.V.	100	Netherlands	Dussafu - 33%
Africa Energy Equity Resources Limited	100	United Kingdom	Energy Equity Resources Oil & Gas Limited, Energy Equity Resources Aje, Energy Equity Resources (Cayman Islands) Limited, Energy Equity Resources (Nominees) Limited
Energy Equity Resources Oil & Gas Limited	100	Nigeria	JDZ 3 – 10% OML113 - 12.5% profit interest
Energy Equity Resources Aje	100	Nigeria	
Energy Equity Resources (Cayman Islands) Limited	100	Cayman Islands	Syntroleum Nigeria Ltd (99%)
Energy Equity Resources (Nominees) Limited	100	Cayman Islands	Syntroleum Nigeria Ltd (1%)
Syntroleum Nigeria Limited	100	Nigeria	OML90 - Ajapa – 40%[1]
Pan-Petroleum Holding B.V.	100	Netherlands	Pan-Petroleum Nigeria Holding B.V., Pan-Petroleum Gabon Holding B.V., Pan-Petroleum Services Holding B.V.
Pan-Petroleum Nigeria Holding B.V.	100	Netherlands	-
Pan-Petroleum Gabon Holding B.V.	100	Netherlands	-
Pan-Petroleum Services Holding B.V.	100	Netherlands	Pan-Petroleum Gryphon Marin B.V.

Notes to the financial statements

at 31 December 2009

Pan-Petroleum Gryphon Marin B.V.	100	Netherlands	-

[1]Less carried interest arrangement (see note 25)

Coralshell

On 7 March 2008, the Company completed the asset acquisition of the entire issued share capital of Coralshell, an unquoted Cypriot holding company, for a consideration of US$5,000,000 satisfied by cash. Coralshell holds a 100% interest in Pan-Petroleum Gabon BV, a company registered in the Netherlands. Pan-Petroleum Gabon BV holds the Group's 33.34% interest in the Dussafu permit in Gabon.

On 17 February 2009, the Board of Directors agreed the conversion of the intercompany loan payable and accrued interest, amounting to US$1,203,748 (note 17), into equity.

The sole shareholder resolved the increase of authorised share capital by the creation of ten ordinary shares with par value of US$1.00 each. The Board of Directors agreed the issue of one ordinary share with nominal value of US$1.00 and share premium of US$1,246,525, to be allotted to the Company.

On 27 March 2009, the board of Directors agreed the conversion of the intercompany loan payable and accrued interest, amounting to US$659,754, into equity. The Board of Directors agreed the issue of one ordinary share with nominal value of US$1.00 and share premium of US$659,753, to be allotted to the Company.

AEER

On the 15 September 2008, the Company acquired from funds managed by Sector Asset Management ('Sector') 433,667 shares in AEER which represented an 80.2% interest and assumed a loan of US$45.0 million. The acquisition was deemed to be an asset acquisition and was satisfied as described below:

Consideration	Description	Number of Shares Issued	Share Price	Value US$'000
A1 Shares	316,667 shares in AEER	1,170,000	$50	58,500
A1 Shares	Assumption of $25.9mm loan from Sector	517,050	$50	25,853
Cash	117,000 shares in AEER	-	-	11,700
Cash	Assumption of $19.1mm loan from Sector	-	-	19,147
Total				115,200

Notes to the financial statements

at 31 December 2009

On 18 December 2008, the Company subscribed for 64,049 shares of AEER, at a price of $100 per share for cash. Following the subscription the Company held 82.2% of the issued share capital of AEER.

On 24 February 2009 the Company subscribed for 205,425 shares of AEER at a price of $100 per share. Following the subscription the Company held 86.7% of the issued share capital of AEER.

On 19 June 2009 the Company, AEER, Energy Equity Resources (Norway) Ltd ('EERNL'), Energy Equity Resources Ltd ('EER'), Dr P. Vingoe, N. Dighe, A Robinson and O. Okhomina entered in to a Separation Deed which provided, inter alia, that:

a. AEER vend to EERNL its 100% interest in EER Oil & Gas Ltd the holder of a 40% stake in OML 115 and its contractual interest in JDZ 1 for $1
b. The Company pay to EERNL US$2.8mm
c. AEER pay to EERNL US$2.875 million for services provided in managing AEER's assets between January and September 2008, which were accrued in 2008
d. AEER pay to operator US$1.077mm for past costs relating to OML 115
e. EERNL vends to the Company 108,000 shares in AEER such that following the transaction the Company holds a 100% interest in AEER

In addition US$0.336mm of past costs relating to OML115 were borne by the company as part of the full and final settlement.

Loans due to EER totalling US$1.339mm were written back as part of the full and final settlement.

The Directors have reviewed the investments held by the Company and believe that there are no indications of impairment at Year end and after the balance sheet date. The Company has continued to invest in its subsidiaries in order to continue to maximise the value of its oil and gas exploration and production assets.

16. Cash and cash equivalents

Group	*At 31 December 2009 US$000*	*At 31 December 2008 US$000*
Cash at bank and on hand	13,976	14,726
Short term bank deposits	-	-
	13,976	14,726

Notes to the financial statements

at 31 December 2009

Company	*At 31 December 2009 US$000*	*At 31 December 2008 US$000*
Cash at bank and on hand	12,064	13,911
Short term bank deposits	-	-
	12,064	13,911

All cash is held in standard interest bearing current accounts.

17. Trade and other receivables

Group	*At 31 December 2009 US$000*	*At 31 December 2008 US$000*
Sector call (see note 21)	-	34,245
Management loan (see note 21)	260	858
Other receivables	3,921	862
	4,181	35,965

Company	*At 31 December 2009 US$000*	*At 31 December 2008 US$000*
Amounts owed by related parties:		
Coralshell (see note 21)	3	1,204
AEER (see note 21)	61,717	50,693
Pan-Petroleum Holding B.V.	44	-
Pan-Petroleum Nigeria Holding B.V.	27	-
Pan-Petroleum Gabon Holding B.V.	8	-
Pan-Petroleum Services Holding B.V.	17	-
Pan-Petroleum Gabon B.V.	817	-
Pan-Petroleum Limited	269	-
Energy Equity Resources Aje	2,231	-
Syntroleum Nigeria Limited	4,289	-
Energy Equity Resources Oil & Gas	2,037	-
Sector call (see note 21)	-	34,245
Management loan (see note 21)	260	858
Other receivables	1,316	4
	73,035	87,004

Notes to the financial statements

at 31 December 2009

18. Trade and other payables

Group	*At 31 December 2009 US$000*	*At 31 December 2008 US$000*
Trade	218	2,921
Accruals	3,206	3,164
Amounts owed to related parties:		
Energy Equity Resources Ltd (see note 21)	-	1,339
Lease payable	51	-
	3,475	7,424

Company	*At 31 December 2009 US$000*	*At 31 December 2008 US$000*
Trade	319	-
Accruals	594	80
Amounts owed to related parties:		
Pan-Petroleum Ltd (see note 21)	249	391
	1,162	471

19. Share Capital

Group and Company

	31 December 2009 US$000	*31 December 2008 US$000*
Share capital	535	535
Share premium	184,557	184,465
Issued share capital	185,092	185,000

Notes to the financial statements
at 31 December 2009

	Note	31 December 2009	31 December 2008
Number of authorised shares (par €0.10)		3,710,010	3,700,010
Number of shares in issue (par €0.10)		3,701,840	3,700,000
Of which:			
Number of shares fully paid		3,695,340	2,537,050
Number of shares part paid	21(l), (m), (n)	6,500	1,162,950

The Company was incorporated on the 28th February 2008 with an authorised share capital of 1,000,000 ordinary shares with a par value of €0.10 each, plus 10 deferred shares with a par value of €0.10 each.

On incorporation, Sector Speculare (Private Equity) III ('Sector') subscribed for 990,000 A1 Shares and 10,000 A2 shares were subscribed by the founders, at a premium of €35.482 each.

On 15 September 2008, the authorised share capital was increased to 3,700,000 ordinary shares with a par value of €0.10 each. The subsequent shares issue of 2,700,000 shares, at a premium of €35.482 each, was broken down as follows:

- Sector Speculare (Private Equity) III ('Sector') subscribed for 1,132,100 A1 shares;
- UBS AG in Trust for Sector Spesit I ('Sector') subscribed for 277,475 A1 shares;
- UBS AG in Trust for Sector Spesit II ('Sector') subscribed for 277,475 A1 shares;
- Sector Speculare (Private Equity) IV ('Sector') subscribed for 991,500 A1 shares; and
- Management subscribed for 21,450 A2 shares.

On 17 April 2009, the authorised share capital was increased to 3,710,010 ordinary shares with a par value of €0.10 each. Subsequently 920 shares were issued to Mr P de Genevraye and 920 shares were issued to Mr T Pedersen, at a premium of €37.49 each, this share issue formed part of their remuneration as non-executive directors (see note 8).

Notes to the financial statements
at 31 December 2009

As at 31 December 2009 the shareholding of the Company was as follows:

	Type of shares	No of shares	% holding
Sector	A1	3,668,550	99.10%
Non-executive directors	A1	1,840	0.05%
Management	A2	31,450	0.85%
TOTAL		3,701,840	100%

As at 31 December 2008 the shareholding of the Company was as follows:

	Type of shares	No of shares	% holding
Sector	A1	3,668,550	99.15%
Management	A2	31,450	0.85%
TOTAL		3,700,000	100%

The balance of share capital issued, but not yet paid is US$260,000 (2008: US$35,103,000).

Each A1 and A2 share carries the right to exercise one vote in general meetings and ranks pari passu both in relation to any dividends or other distributions that are made by the Company and in all other respects, other than that a portion of A1 Shares are convertible to deferred shares in case of a Liquidity Event (a listing on a recognised stock exchange, a sale of more than 50% by value of the assets or a sale of more than 51% of the A1 shares). Deferred shares have no voting rights, rights to dividend distribution or profit participation, except for the return of subscribed capital in the case of the winding up of the Company.

20. Other reserves

The translation reserve relates to the revaluation of the Group's UK subsidiary, Pan-Petroleum Limited, whose functional currency is GBP.

The reconciliation of movements in equity and reserves is detailed in the consolidated and company statements of changes in equity.

21. Related party transactions

(a) The Company is invoiced on a monthly basis by Pan-Petroleum Limited ("PPL"), a service company incorporated in England and Wales, as defined in the terms of the service agreement between the Company and PPL. PPL is a wholly owned subsidiary of PPHC.

Notes to the financial statements

at 31 December 2009

At the period end there was a net overpayment of US$20,344 in respect of this service charge (2008: US$390,608 underpayment).

The total amount charged to the Company during the course of the period was US$6,597,601(2008: US$4,341,562).

(b) The Company had an intercompany loan receivable from its subsidiary, Coralshell.

As at 31 December 2009, the receivable amount was US$3,163 (2008: US$1,203,748).

Included in this amount is interest charged on the loan at 1% pcm, the total net interest charge for the period was US$2,532 (2008: US$21,178).

During 2009 the loan was converted into equity (see note 15).

(c) The Company has two intercompany loan receivables from its subsidiary, AEER.

Loan 1

As at 31 December 2009, the receivable amount was US$48,149,893 (2008: US$50,692,500).

Included in this amount is interest charged on the loan at 1% pcm, the total interest charge for the period was US$5,402,012 (2008: US$1,692,600).

Loan 2

As at 31 December 2009, the receivable amount was US$13,567,183 (2008: US$nil).

Included in this amount is interest charged on the loan at LIBOR + 1% pa, the total interest charge for the period was US$79,512 (2008: US$nil).

(d) As at 31 December 2009, the Company has non-interest bearing, repayable on demand loans with its subsidiaries as follows:

	US$
Pan-Petroleum Holding B.V.	44,310
Pan-Petroleum Nigeria Holding B.V.	27,158
Pan-Petroleum Gabon Holding B.V.	7,672
Pan-Petroleum Services Holding B.V.	17,414
Pan-Petroleum Gabon B.V.	817,429
Pan-Petroleum Limited	268,850

Notes to the financial statements

at 31 December 2009

(e) The Company recharges its asset holding subsidiaries, for personnel services. As at 31 December 2009 the following amounts were outstanding:

	US$000
Energy Equity Resources Aje	2,231,327
Syntroleum Nigeria Limited	4,289,545
Energy Equity Resources Oil & Gas	2,036,985
Pan-Petroleum Gabon B.V.	631,140

(f) The Company has an investment in AEER of US$97,147,789 (2008: US$76,605,289) (see note 15).

(g) The Company has an investment in Coralshell of US$6,906,280 (2008: US$5,000,000) (see note 15).

(h) The Company has an investment in Pan-Petroleum Limited of US$2 (2008: US$2) (see note 15).

(i) The Company has an investment in Pan-Petroleum Holdings B.V. of US$25,142 (2008: US$nil) (see note 15).

(j) At 31 December 2008 the Group had a loan payable of US$1,339,282 due to Energy Equity Resources Limited ("EER"), this was subsequently settled as part of the agreement dated 19 June 2009 (see note 15).

(k) At 31 December 2008 the Group had an accrual of US$2,875,000 in respect of management fees owed to EER, this was settled subsequently as part of the agreement dated 19 June 2009 (see note 15).

(l) At 31 December 2008 the Group and the Company had a call facility of US$34,245,000 from Sector in respect of the issue of A1 shares on 15 September 2008, this was settled during Q1 2009.

Transactions with directors

(m) At 31 December 2008 the Group and the Company had a loan with P Vingoe of US$429,000, in respect of the unpaid portion of the issue of 10,725 A2 shares, issued on 15 September 2008. On 1 July 2009 he vended 500 A2 shares to A Stobie for a consideration of US$20,000 and on 30 November 2009 the remaining balance was settled.

(n) The Group and the Company have a loan with N Dighe of US$220,000 (2008: US $429,000), in respect of the unpaid portion of the issue of 10,725 A2 shares, issued on 15 September 2008. On 1 July 2009 he vended 500 A2 shares to A Stobie for a consideration of US$20,000 and on 3 November 2009 $189,000 was settled.

Notes to the financial statements

at 31 December 2009

(o) The Group and the Company have a loan with A Stobie of US$40,000 (2008: US$nil), in respect of the unpaid portion of the issue of 1,000 A2 shares, vended by P Vingoe and N Dighe on 1 July 2009.

(p) As a result of the AEER settlement, P Vingoe and N Dighe received ex gratia payments from the company amounting to $664,000.

22. Maturity of liabilities

The table below summarises the maturity profile of the Company's financial liabilities at 31 December 2009 based on contractual undiscounted payments.

Year ended 31 December 2009

Group	On demand US$'000	Less than 3 months US$'000	Within 1 year US$'000	Total US$'000
Trade payables	218	-	-	218
Accruals and other payables	3,206	-	-	3,206
	3,424	-	-	3,424

Company	On demand US$'000	Less than 3 months US$'000	Within 1 year US$'000	Total US$'000
Accruals and other payables	319	-	-	319
Amounts owed to related parties	594	-	-	594
Loan due to related party	249	-	-	249
	1,162	-	-	1,162

Year ended 31 December 2008

Group	On demand US$'000	Less than 3 months US$'000	Within 1 year US$'000	Total US$'000
Trade payables	2,921	-	-	2,921
Accruals and other payables	3,164	-	-	3,164
Loan due to related party	1,339	-	-	1,339
	7,424	-	-	7,424

Notes to the financial statements

at 31 December 2009

Company	On demand US$'000	Less than 3 months US$'000	Within 1 year US$'000	Total US$'000
Accruals and other payables	80	-	-	80
Amounts owed to related parties	-	391	-	391
	80	391	-	471

23. Fair value estimation

The carrying amount of cash at bank, trade and other receivables, trade and other payables approximated their fair values.

The Group and Company have no other financial instruments.

24. Capital commitments

Amounts contracted in respect of ongoing projects of the Group, but not provided for in the financial statements at 31 December 2009 amounted to US$9.09mm (2008: US$20.3mm).

25. Carried interest arrangement

On acquisition of AEER, the group acquired a carried interest arrangement on the Ajapa licence licence, totalling US$18mm payable from post-tax operating cash flows. Upon the commencement of production, this arrangement is such that the first US$18mm of free cash flow will become due to the field operator.

26. Lease commitment

The Group has entered into an operating lease for its head office. The lease runs until June 2013, 3.5 years (2008: 6 months) with renewal terms at the option of the lessee.

	31 December 2009 US$'000	*31 December 2008 US$'000*
Within 1 year	329	164
After 1 year but not more than 5 years	1,649	-
More than 5 years	-	-
	1,978	164

Notes to the financial statements

at 31 December 2009

27. Post-balance sheet events

On 18 June 2009 the Company advanced a loan of US$5mm to AEER and on 17 August 2009 the Company advanced a further US$5.5mm to AEER.

On 4 November 2009 the board of the Company approved the issue of 135,396 shares of AEER at US$100 per share, in respect of:

The cancellation of US$10.5mm outstanding loan principal and US$39,689 of interest on said loan, and US$3.0mm of additional capital.

This is expected to complete after these financial statements have been signed.

Sale of Pan-Petroleum Gabon BV to Pan-Petroleum Gabon Holdings BV

On 4 November 2009 the Board of the Company approved the sale by Coralshell Ltd of Pan-Petroleum Gabon BV to Pan-Petroleum Gabon Holdings BV for its then fair value, being US$6.71mm. Pan-Petroleum Gabon Holdings BV is a wholly-owned subsidiary undertaking of the Company.

This is expected to complete after these financial statements have been signed.

Prevail Energy Congo Ltd

On 20 May 2009 the Company entered in to a Heads of Terms with Prevail Energy Holdings Ltd whereby the Company agreed to acquire a 100% interest in Prevail Energy Congo Ltd, subject to contract. Pursuant to the Heads of Terms the Company agreed, inter alia to make a deposit payment of US$1.00mm once the transaction has closed. The security for the deposit was the entire issued share capital of Prevail Energy Congo Ltd.

The transaction closed on 23 January 2010.

The total consideration was US$6.67mm, which was made up as follows:

	US$
Cash (paid 23 January 2010)	5,504,927
23,334 B1 shares in PPHCL @ US$50/share	1,166,700
TOTAL	6,671,627

Notes to the financial statements

at 31 December 2009

In addition there are further B1 shares payable to the sellers, contingent upon various operational milestones being achieved. These milestones are as follows:

	No of shares
Successful testing of well (production based)	49,902
Successful testing of well (oil below a certain depth)	33,333
Production exceeding 10,000 bopd	66,666
Production exceeding 15,000 bopd	33,333
Production exceeding 20,000 bopd	33,333
Production exceeding 30,000 bopd	33,333
Production exceeding 40,000 bopd	33,333
	283,233

B1 shares rank pari passu with A1 shares.

New Brazil Holdings

On 14 January 2010 the Board of Pan-Petroleum Holding (Cyprus) Limited, approved the terms of a Business Combination Agreement ("BCA") with Norse do Brasil ("NdB"), currently a subsidiary of Norse Energy Corporation ("NEC"), to create a new entity, incorporated in Norway ("Newco"), which will own all the share capital of PPHCL and NdB.

Following the completion of the business combination PPHCL shareholders will own approximately 50%, subject to adjustment, of the newly incorporated Norwegian entity ("Newco").

Under the terms of the BCA, prior to completion, a minimum of $65m is to be raised to fund the combined business until end 1Q 2011. This is to be raised by NEC, Sector Asset Management ("Sector"), the principal shareholder of PPHCL, and by way of a private placement. The BCA requires successful fundraising from all 3 of these sources. The directors believe that NEC and Sector have the necessary funds available to meet their commitments.

Amendment to Articles of Association

On 13 January 2010 the Shareholders passed a resolution amending the Company's Articles of Association. The change amended the ratchet relating to the A1 and A2 shares such that at a liquidity event, as defined, the A2 shares would own at least 4.75% of the Company's equity and up to 8.5% of the Company's equity if the invested capital was increased at least 2 times.

APPENDIX 7: INDEPENDENT ASSURANCE REPORT ON THE PRO FORMA FINANCIAL INFORMATION

ERNST & YOUNG

Statsautoriserte revisorer
Ernst & Young AS
Christian Frederiks pl. 6, NO-0154 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

Independent Assurance Report on Pro Forma Financial Information

To the Board of Directors of Panoro Energy ASA

In accordance with EU Regulation No 809/2004 as included in the Norwegian Securities Trading Act section 7-13, we report on the compilation of the unaudited pro forma financial information ("Pro Forma Financial Information") of Panoro Energy ASA ("the Company") consisting of the unaudited pro forma condensed income statements of the Company for the periods ended 31 December 2009 and 30 June 2010 and the accompanying description and notes to the unaudited Pro Forma Financial Information, which is set out in Section 8.7 of the Company's prospectus dated 16 September 2010 (the "Prospectus").

The Pro Forma Financial Information has been compiled on the basis described in section 8.7 of the Prospectus for illustrative purposes only, to provide information about how the merger between the Company and Pan-Petroleum Holding AS and subsidiaries ("the Pan Group") might have affected the unaudited condensed consolidated income statement of the Company for the six months ended 30 June 2010 and the unaudited condensed carve-out income statement of the Brazil Group for the year ended 31 December 2009. Because of its nature, the Pro Forma Financial Information addresses a hypothetical situation and, therefore, does not represent the Company's actual financial position or results.

Board of Directors' and Management's responsibility
It is the Board of Directors' and management's responsibility to compile the Pro Forma Financial Information in accordance with the requirements of EU Regulation No 809/2004 as included in the Norwegian Securities Trading Act.

Reporting responsibility
It is our responsibility to form an opinion, as required by Annex II item 7 of EU Regulation No 809/2004, as to the proper compilation of the Pro Forma Financial Information. The aforementioned opinion does not require an audit of historical unadjusted financial information, the adjustments to conform the accounting policies of the Pan Group to the accounting policies of the Company, or the assumptions summarized in section 8.7 of the prospectus. The historical financial information of the Company and the Pan Group which reflects net losses of USD 8 570 million and USD 9 867 million respectively for the six months ended 30 June 2010 is unaudited. The historical carve-out financial information of the Brazil Group which reflects a net loss of USD 8 000 million for the year ended 2009 is unaudited. We are not responsible for updating any reports or opinions previously issued by us for any events that occurred subsequent to the date of our report on the historical financial information used in the compilation of the Pro Forma Financial Information.

Work performed
We conducted our work in accordance with the Norwegian Standard on Assurance Engagements 3000, "Assurance Engagements Other than Audits or Reviews of Historical Financial Information." We planned and performed our work to obtain reasonable assurance

ERNST & YOUNG

that the Pro Forma Financial Information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company. Our work primarily consisted of comparing the unadjusted financial information with the source documents as described in section 8.7 of the Prospectus, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information with management of the Company.

Opinion
In our opinion:

a) The Pro Forma Financial Information has been properly compiled on the basis stated in section 8.7 of Prospectus; and
b) That basis is consistent with the accounting policies of the Company.

This report is issued for the sole purpose of the admission of shares on Oslo Børs (Oslo Stock Exchange) and other regulated markets in the European Union or European Economic Area, as set out in the Prospectus approved by the Financial Supervisory Authority of Norway. Therefore, this report is not appropriate in other jurisdictions and should not be used or relied upon for any purpose other than the admission of shares as described above. We accept no duty or responsibility to and deny any liability to any party in respect of any use of, or reliance upon, this report in connection with any type of transaction, including the sale of securities other than the admission of shares on Oslo Børs and other regulated markets in the European Union or European Economic Area, as set out in the Prospectus approved by the Financial Supervisory Authority of Norway.

Oslo, 16 September 2010
ERNST & YOUNG AS

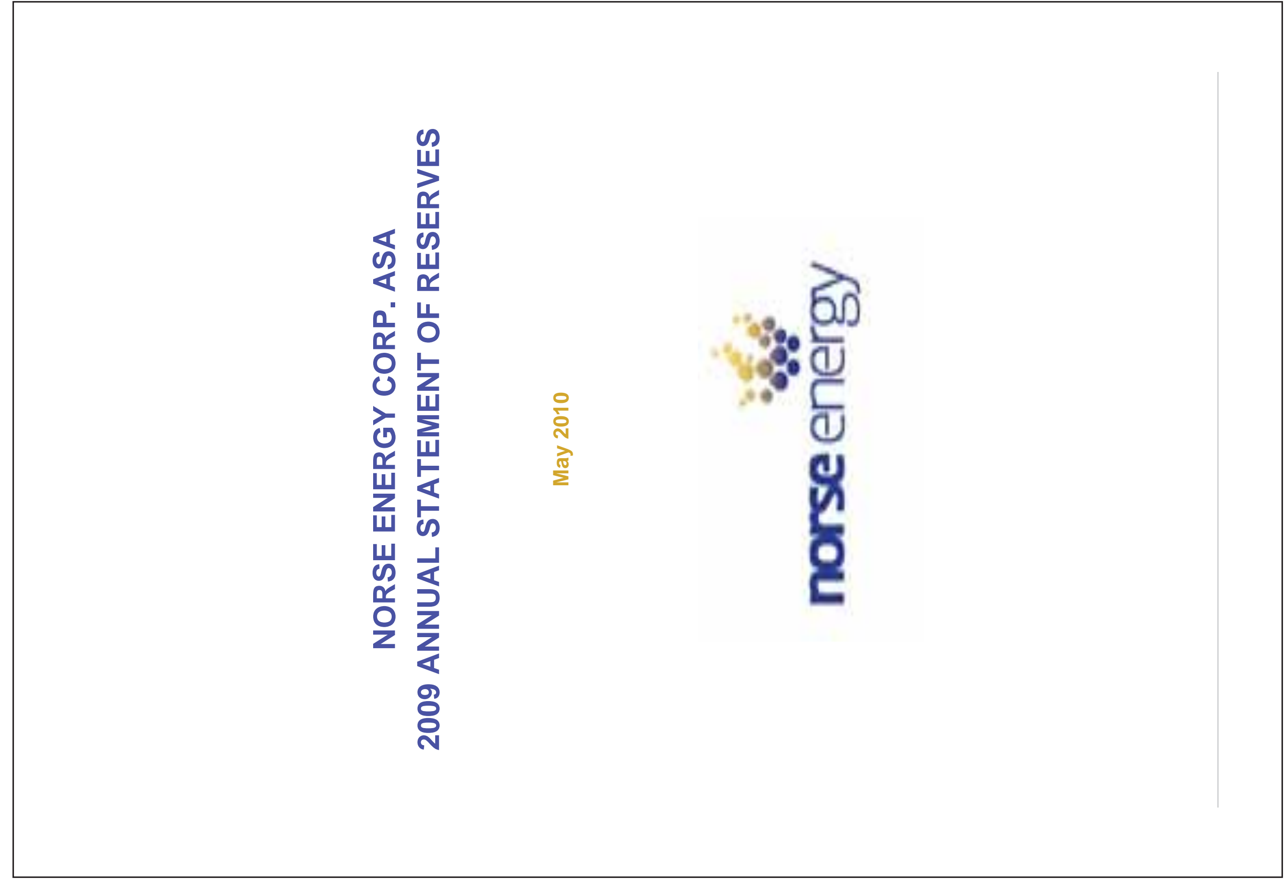
Erik Søreng
State Authorised Public Accountant (Norway)

norse energy

Index

Disclaimer 3
Introduction 4
Reporting Assumptions and Definitions 4
Consolidated Reserves and Contingent Resources 7
Management Discussion and Analysis Brazil 9
Management Discussion and Analysis US 13

2



Disclaimer

The 2009 Reserve Report for Norse Energy Corp. ASA should be reviewed with the following conditions in mind:

- There are numerous uncertainties inherent in estimating hydrocarbon reserves and resources, projecting future production volumes, costs and cash flows:
  - Reservoir assessments in general must be recognized as subjective processes of estimating hydrocarbon volumes that can not be measured in an exact way
  - Assessments made by others may vary materially
  - The accuracy of any assessment is a function of the quality of available data and of engineering and geological interpretation
  - Results of future drilling, testing, production and new technology applications may justify revisions that could be material
  - Reserve and resource estimates are often different from the quantities of hydrocarbons that are ultimately recovered as are actual timing and costs related to the recovered volumes compared to the assumptions.
- The reported results reflect independent third party reviews of available technical and economic data sets and assumptions available by the end of 2009.
- Interpretations and assumptions made may change over time which again may affect the reported results.
- The company uses third party certifications as a supplement to its decision process. Other inputs include in-house evaluations and joint-venture partners' opinions

Oslo, May 21, 2010

Øivind Risberg

Chief Executive Officer

Introduction

The company 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-2007) sponsored by 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.

Each region (division) has a long-standing relation with its certification agents; Gaffney, Cline & Associates (GCA) in Brazil and Schlumberger Technology Corporation in the USA.

Reporting Assumptions and Definitions

Pricing US division

For purposes of reserve report generation, the company uses year end pricing forecasts as of the last trading day of the calendar year (New York Mercantile Exchange "NYMEX") coupled with contractual hedges the company has in place as risk mitigation measures. When calculating reserves, the company methodology includes the use of hedged gas pricing for all applicable gas volumes. This is consistent with SEC requirements in place in the US. For any additional scheduled production volumes exceeding contracted (hedged) volumes, the company uses an annually weighted NYMEX strip price for the five trailing years based on the last trading day on the exchange for the prior year. For the current report, the last trading day for the NYMEX was December 31, 2009. In addition, an Appalachian pricing adjustment of USD +0.17 MMBtu is applied to the spot pricing settled averages to adjust the report for local market conditions (which historically trades positive to the market). This again is consistent with SEC requirements for reserve reporting in the United States. As Appalachian reserves are long lived, acceptable reserve reports include 40 year default well life absent any economic considerations which require reserve calculation termination prior to that time. Consequently, for time periods exceeding the 5 year strip price coverage, that last price is used as the base price for any remaining economic calculations required by the reserve report.

The 5 year average strip prices (USD/MMBtu) used in the current report are as follows, when adjusted for Appalachian market premium:

2010	2011	2012	2013	2014
6.30	6.67	6.77	6.93	7.04

Norse Energy's hedge position in US Division

Contract	Time Frame	Total Contract Volume (MMBtu)	Contract Price (USD/MMBtu)
Contract #1	Through 12/2010	30 000/Month	Varies from USD 6.954 – $8.479
Contract #2	7/2009 – 12/2010	20 000/Month	USD 8.850
Contract #3	Through 12/2010	10 000/Month	USD 8.000
Contract #4	Through 12/2012	Varies 20 000 to 70 000/Month	USD 5.720

Methodology US

The company uses the Appalachian Basin wide standard of time rate curve analysis for reserve quantification. The long productive life for most Appalachian assets demonstrates that the convention is a prudent and accurate method and is acceptable for the SPE standard method of reporting. Depletion is more frequently defined as reaching the economic "break-even" hurdle as permeability and reservoir quality issues require that appreciable gas volumes remain un-recovered absent improvements in economic efficiency and technology. Most properties, therefore, reach economic limits prior to true depletion.

Well performance is modeled on a well history basis for all developed assets. A best fit time-rate curve is extrapolated based on historical performance to give the best overall expected view of future performance

characteristics for individual properties. Currently, the company manages 100 properties in this category. Appropriate working interest and net revenue interest positions are built into each well forecast. Subsequently, operating expenses, gathering and shrinkage expenses, and capital requirements are netted against the performance forecast until either reaching the well economic limit or reaching the 40 year forecast terminus – whichever comes first.

For as yet undeveloped assets where sufficient production histories from nearby properties exist, type curves generated based on localized averaging of those producing properties is used as the basis for gross production. For formations with limited production history, testing and reservoir modeling are used as additional support for type curve development. The same expense dynamics noted earlier, which are based on company accounting documentation of operating expenses and capital requirements, form the basis for assigning reserves on an individual prospect basis.

The undeveloped position of the company involves assets in all categories accepted by SPE definition which can be qualified as Proven (P1), Probable (P2), and Possible (P3). These traditional deterministic reserve calculations are geologically defined based on assessed drilling risk following conventions accepted in Appalachian reserve analysis and followed by the company's US reserve analysts. Substantially, distance from producing properties is the fail-safe determination for establishing the thresholds between proven, probable and possible reserves unless there exists strong geologic or geophysical support of structure and stratigraphy which model historically producible features. Indeed, the large volume of well log and interpretive drilling data complements thorough understanding of the producing horizons – especially when considering the extensive drilling density in the area of the company's operations. Once base maps are prepared outlining locations, they are reviewed by the reserve analysts (Schlumberger DCS) and qualified as to proper reserve categorization. PUD (proven) locations are typically 1 location offsets of producing wells, Probable locations are 2 location offsets of producing wells or 1 location offsets of PUD locations. It follows then that Possible locations are 3 location distant offsets of producing wells. In addition, Possible locations can also be quantified based on the geologic evidences noted above absent drilling operations located in the immediate areas of the prospects.

In addition, due to extensive seismic data acquisition (both 2D and 3D) and evaluation and completion of alternative target horizons in existing wells, a significant quantity of potential development targets classified as 2C (best case) Contingent Resources has been identified by company technical staff. These resources form an appreciable exploration position on leasehold acreage which is scheduled for initial development beginning in 2010. Quantification of the Contingent Resource potential is consistent with the same deterministic reserve calculation methodology used to identify P1, P2, and P3 reserves. These contingent resources are structurally identified but are located too distant from established production targets to sufficiently mitigate drilling and economic risks which would allow their inclusion in higher reserve categories.

Pricing assumptions Brazil

Oil prices used to test commerciality has been provided by Norse, based on year end WTI NYMEX forward projections until 2014 - 2% yearly escalation assumed after 2015.

Year	Oil US$/Bbl	Gas US$/MMBtu
2010	81.84	6.06
2011	85.81	6.89
2012	87.83	7.38
2013	89.31	7.75
2014	91.09	8.03
2015	92.92	8.19
Thereafter	+2% thereafter	+2% thereafter

- The Manati gas prices used to test commerciality are determined according to the clauses of the long term gas sales contract expressed in the local currency ($Reais), adjusted yearly according to the Brazilian price index.

- Manati Average gas sales price for 2009: USD 7.19 US$/MMBtu (before royalty and taxes)

Methodology Brazil

All assets covered by this report have extensive 3D seismic surveys that have been used to generate relevant geological models. These geological models in conjunction with available well and production data were used in reservoir simulation models for volume estimations according to accepted industry methodology. Resulting sub-surface conclusions and recommendations together with documented development concepts as provided by the Operator has been documented in relevant Plans of Development. (POD's) submitted to the authorities. The same work has formed the basis for the Reserve certification performed by GCA.

For the southern Santos assets (referred to as the BS3 area), the Company has since 2008 drawn upon the services of the Norwegian based E&P consultancy AGR. This provides independent, alternative asset evaluations supplementing the Operator's work.

Commerciality has been demonstrated for an integrated development solution involving four BS3 accumulations, including the three Norse assets (Cavalo Marinho, Coral and Estrela do Mar) and the 100% Petrobras field Caravela.

GCA did review this work in conjunction with the 2008 Reserve report and has certified volumes as Contingent Resources reflecting that this concept has not reached investment decision or filing of a Plan of Development (POD).

Consolidated Reserves and Contingent Resources

Norse Energy's 2009 reserve reports are summarized in the table below:

Norse segment	1P reserves (MMBOE)	2P reserves (MMBOE)	3P reserves (MMBOE)
USA	**5.8**	**7.2**	**7.9**
Northern Appalachia	5.8	7.2	7.9
Brazil	**17.2**	**35.7**	**45.1**
Estrela do Mar	-	5.7	6.80
Cavalo Marinho	5.7	14.2	20.3
Manati	11.5	15.8	17.9
Norse Totals	**23.0**	**42.9**	**53.0**

Certified 2P reserves at year end 2009 were 42.9 MMBOE which was 2% below year-end 2008. The company 1P reserves of 23.0 MMBOE reflect a 1% increase compared to last year, reflecting the US drilling program allowing increased 1P booking.

During 2009, the company had the following reserves development:

Reserves Development	GROUP (MMBOE)
Balance (previous ASR) as of December 31, 2008	43.8
Production 2009	-1.6
Acquisitions/disposals since previous ASR	0.0
Extensions and discoveries since previous ASR	0.0
New developments since previous ASR	1.2
Revisions of previous estimates	-0.5
Balance (current ASR) as December 31, 2009	**42.9**

Notes:
- *Figures are consolidated on a corporate level;*
- *Reserve and resources estimates comply with the new definitions set by the 2007 SPE Petroleum Resources Management System (PRMS-2007).*

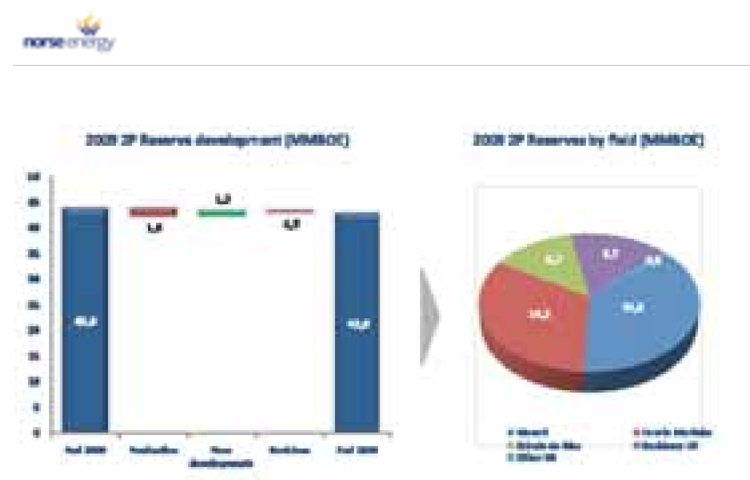
The most significant changes compared to last year's report are attributable to:

Brazil
- For Cavalo Marinho and Estrela do Mar no further sub-surface work has been made available from the Operator. An update of the cost estimates relative to the submitted PODs has been made available to GCA.
- For the BS3 fields, activities during 2009 has focused on preparing the framework for an area integrated development concept involving Cavalo Marinho, Caravela, Coral and Estrela do Mar
- For Manati the Operator has provided revised sub-surface models following rework of the seismic and the geological model considering the production history and well performance. This work resulted in minor increase in recoverable volumes that has been reviewed by GCA, resulting in

remaining reserves basically in line with 2008 volumes. 2009 production from Manati was: 1.183 MMBOE.

USA
- The Company's most successful horizontal Herkimer well was put into production in January. It produced over 0.6 Bcf of gas by the end of 2009.
- The addition of a significant number PUD wells to the inventory due to strategic drilling activity, infill leasing and improvements in tracking well inventory.
- With the focus on existing Herkimer formation and the potential of the shale formations under current lease position, much of the reserves from other zones such as the Oneida and Vernon Shale remained in the contingent category. As those other formations become desirable in the future, much of the resources can be moved back into the 3P category.
- The increase in contingent shale resources was due to several factors.
  - Reinterpretation of shale logs and isotherms with additional information obtained during 2009.
  - More detailed analysis of depth vs. GIP for both Marcellus & Utica shale formations.
  - Layout of pad drilling program using horizontal well design applied in other shale basins. This activity resulted in a decrease in well count and an increase in recovery factor. In 2008 a vertical well was assumed to have 15% recovery factor and in 2009 the recovery factor for a horizontal well was assumed to be 30%. The recovery factors are based on published results from analogous shale plays.
- The company drilled four successful exploration wells in the deeper formation Theresa (15% interest), all these were connected in Q1 2010.
- Layout of additional Theresa wells yielded a small increase in contingent resources.
- A slight change in the expectation of the Herkimer gas recovery caused a downward revision of 3P reserves.

These reserves and resources are based on the following assumptions:
- All US numbers from Schlumberger are net to the company's interest after royalties;



Annual Statement of Reserves										
Developed Assets										
As of Dec. 31, 2009	1P/P90					2P/P50				
Norse Energy	Liquids MMbbl	Gas Bcm	Total MMBOE	Interest%	Net MMBOE	Liquids MMbbl	Gas Bcm	Total MMBOE	Interest%	Net MMBOE
Central New York		0,4	2,8	66.36%	1,9		0,4	2,8	66.36%	1,9
Manati field	1,9	18,0	115,1	10.00%	11,5	2,6	24,7	157,9	10.00%	15,8
Total	**1,9**	**18,4**	**117,9**	**-**	**13,4**	**2,6**	**25,1**	**160,7**	**-**	**17,7**
Under Development Assets										
As of Dec. 31, 2009	1P/P90					2P/P50				
Norse Energy	Liquids MMbbl	Gas Bcm	Total MMBOE	Interest%	Net MMBOE	Liquids MMbbl	Gas Bcm	Total MMBOE	Interest%	Net MMBOE
Central New York		0,1	0,8	39.63%	0,3		0,1	0,8	39.63%	0,3
Total	**0,0**	**0,1**	**0,8**		**0,3**	**0,0**	**0,1**	**0,8**		**0,3**
Non-Development Assets										
As of Dec. 31, 2009	1P/P90					2P/P50				
Norse Energy	Liquids MMbbl	Gas Bcm	Total MMBOE	Interest%	Net MMBOE	Liquids MMbbl	Gas Bcm	Total MMBOE	Interest%	Net MMBOE
Central New York		0,7	4,2	86.62%	3,6		1,0	5,8	86.62%	5,0
Estrela do Mar	0,0	0,0	0,0	65.00%	0,0	8,7	0,0	8,7	65.00%	5,7
Cavalo Marinho	8,8	0,4	11,3	50.00%	5,7	20,8	1,2	28,3	50.00%	14,2
Total	**8,8**	**1,1**	**15,5**	**-**	**9,3**	**29,5**	**2,2**	**42,8**	**-**	**24,9**
Total assets	**10,7**	**19,6**	**134,2**	**-**	**23,0**	**32,1**	**27,4**	**204,3**	**-**	**42,9**

According to the SPE definitions, categorization of volumes as reserves are only permitted when approved development plans demonstrating acceptable economics are available.

Best estimate (2C) Contingent Resources for the Company show an increase of 93% from 377 MMBOE) to 728 MMBOE) at the end of 2009. For the US, contingent resources more than doubled from 346 MMBOE (1.94 Tcfe) to 697 MMBOE (3.92 Tcfe) at the end of 2009. The increase is mainly attributed to continued geologic and engineering evaluation of the Utica and Marcellus shales. In 2009, the Company invested time and resources to gather additional geologic information on the shale formations as well as laying out drilling plans for horizontal well pads. Using horizontal wellbore layout and assuming the application of modern completion techniques, per well recovery factors were increased from 15% to 30% in the Utica and Marcellus shales.

Schlumberger estimates recoverable contingent resources (2C) from the Utica shale formation of 2.55 Tcf (454 MMBOE), up 148% from last year's estimate of 1.03 Tcf (183 MMBOE). Recoverable contingent resources (2C) from the Marcellus shale were estimated to be 1.18 Tcf (211 MMBOE), up 61% from the 2008 estimate of 0.74 Tcf (131 MMBOE). Contingent resources from the Herkimer formation declined slightly, from 147 Bcf (26.2 MMBOE) to 142 Bcf (25.3 MMBOE).

For Brazil, there have not been any revisions to the best estimate contingent resource volume from 2008 to 2009.

Management Discussion and Analysis, Brazil

Norse Energy do Brasil is focusing its activities offshore in two geographical areas: (1) The "BS-3 area" in the southern Santos Basin and (2) The "Camamu Almada Area", offshore the state of Bahia.

BS-3 Area highlights

Santos Basin is a large sedimentary basin offshore southern Brasil covering 350 000 km2. The BS-3 area is located in the southern part of this basin.

BS-3 area holds three important Norse assets: (1) Cavalo Marinho and 2) Estrela-do-Mar oil fields where development plans have been prepared and are currently under consideration for development and 3) Coral oil field, currently abandoned but considered for re-development.. An oil discovery just north of Cavalo Marinho - named Caravela Sul - is considered as a potential future satellite development. The BS-3 area holds other fields as well as exploration blocks held 100% by Petrobras.

Geologically, the hydrocarbon bearing layers are carbonates of the Guaruja Formation. The trapping mechanisms are a combination of salt movement and faulting, with anticlines forming on top of the salt diapirs. Four main reservoir zones are mapped in the BS-3 area, named B1 through B4 and found at depths ranging from 4 900 – 5 300 m below sea level. The top layer (B1) is by far the biggest in terms of mapped oil in place (>1billion barrels) but, permeability has been greatly reduced by geological processes over time. With low oil prices, historic drilling and completion technologies, B1 have generally been considered non-commercial.

The main producing intervals are the B2 and B3 zones, with B2 showing the best reservoir properties. B4, the deepest interval, also displays good flow properties but generally holds much smaller quantities of hydrocarbons when found hydrocarbon bearing.

For the 2009 reserve report, GCA has been provided updated cost estimates of the filed development plan for CVM.

During 2008, Norse commissioned the Norwegian petroleum engineering consultancy AGR to perform independent evaluations of the company's BS3 assets. Results indicated possible upside resources for all Norse fields compared to the Operator's evaluations. AGR also suggested a different development scenario involving drilling of high angle/horizontal wells, subsea tie-backs to a centrally placed production installation and use of gas lift and water injection. GCA was provided with AGR's reports and audited these for the purpose of certifying new values for *Contingent Resources.*

The partners have agreed to evaluate a larger, integrated development solution scenario where all discoveries in the area are considered tied back to a central FPSO for processing and gas export to shore as an alternative to the already filed development plans which still form the basis for GCA *Reserves* certifications,. This scenario could also involve a re-development of Coral where a new approach with new wells, water injection and gas lift will allow production of resources left behind by the now terminated first production phase.

Recently, Petrobras has announced plans to study a further enlargement of the integrated concept as they are considering including two discoveries in a block 20-30km's northeast of EdM. (Tiro and Sidon fields, according to Petrobras with some 200MMbbl recoverable oil).

Successful conclusion of these studies would benefit all participating fields and a recommendation is expected in 2010.

For the 2009 report GCA has not performed any new evaluations involving more recent work by AGR. Consequently the 2008 numbers for Contingent Resources are carried forward.

Results of new work performed by AGR during 2009/10 were not available to allow inclusion in the 2009 GCA Reserve report. This work, also involving a feasibility study of B1 commercialization will be made available to GCA for a 2010 revision of the Contingent Resources in the BS3 fields.

Cavalo Marinho field (CVM) 50% to Norse

Following ANP's requests to find solutions to avoid flaring gas, the Operator in October 2007 filed a new development plan for CVM, based on a joint development with the nearby Caravela field (100% Petrobras). The development plan for CVM includes two horizontal wells, a shared FPSO (located half way between the fields), a 180km gas pipeline to shore where a new treatment plant will link to the nearby Bolivia pipeline system.

Based on the filed development plan GCA has certified volumes as follows: – 1P reserves 5.7 MMBOE and 2P reserves of 14.2 MMBOE. GCA restricts P1 volumes since the subzone B2 was not flow tested in the CVM discovery well (due to well mechanical problems).

The independent study on CvM done by AGR shows higher oil in place and involves a proposed development scenario with three production wells resulting in higher resources. GCA has audited this work and certified 15.1 MMBOE as best estimate – 2C contingent resources.

Caravela-Sul field (CVS) 50% to Norse

This 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.

GCA has allowed CVS volumes as Contingent Resources, with a best estimate - 2C of 0.4 MMBOE.

Estrela do Mar field (EdM) 65% to Norse

With the prospect of an early abandonment of Coral, the Operator prepared a Development Plan for EdM which was filed with ANP in September 2007. This plan reflects a stand-alone development solution, re-using Coral equipment and flaring associated gas. Revised cost analyses and oil price forecasts leave EdM without 1P reserves but 2P reserves of 5.7 MMBOE.

GCA has also considered AGR's alternative interpretation and proposed development solution involving a sub-sea satellite tie-back to the Cavalo Marinho-Caravela integrated project. This scenario improves the Estrela do Mar project and GCA has certified the Best estimate – 2C: 6.2 MMBOE as Contingent Resources.

Coral field

The Coral field was developed with three sub-sea producing wells clustered beneath a floating production unit capable of processing 24,000 bpd oil and water with flaring of associated gas.

Production from Coral was terminated on December 25th, 2008 following a period where a pilot water injection scheme had provided encouraging results.

Both the operator and Norse have conducted studies to identify the potential of further Coral recoveries and a future return to the field is expected. Coral is then considered as a satellite to the Cavalo Marinho – Caravela integrated development solution scenario. The re-development of Coral involves side-tracking existing wells, water injection and gas lift that will allow production of resources left behind. The partners have also decided to retain the license.

GCA has also considered AGR's alternative interpretation and proposed development solution involving a tie back to the Cavalo Marinho - Caravela integrated project. With this scenario GCA certifies Best estimate – 2C: 3.4 MMBOE as Contingent Resources.

Camamu Almada Area Highlights

Manati Gas field

Manati is a medium to large size dry gas field located in 40 meters of water depth offshore the city of Salvador. The field was discovered in year 2000; its development started in 2004 and was concluded by end 2007 with the drilling of six production wells.

Production started in January 2007, with production ramp-up as wells were added during the year.

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 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.

For the present work, GCA was able to include results of the 2009 field re-evaluation conducted by the Operator involving re-visiting seismic interpretations and geological modeling considering 3 years of production history with pressure data.

GCA restricts 1P numbers to the minimum contracted volume according to the signed take-or-pay sales contract. They also point out that some 2.8 MMBOE of this would require installation of compression equipment. (Compressor-station currently planned for 2012).

Compared to last year, 1P reserves according to Gaffney & Cline are down from 12.8 to 11.5 MMBOE while 2P Reserves decreased from 16.7 to 15.8 MMBOE, reflecting both the new interpretation (which added 0.3 MMBOE to the 2P estimates) and 1.183 MMBOE produced volumes during 2009.

Certified 3P volumes of 17.9 MMBOE assume a 7th well draining the northern extension of the field.

Sardinha field

The Sardinha field, some 30 km south of Manati but only 4km offshore, has six wells drilled and tested to delineate the accumulation, which is a gas cap above an oil rim.

Reservoir complexity is high and the partners have not yet been able to define a viable development scenario. No new information has been made available and last year's number (2C of 4.5 MMBOE) is carried forward.

Norte de Camarao

In conjunction with termination of the exploration campaign and subsequent relinquishment of license BCAM-40, the BAS-131 discovery which straddles the border to the neighboring block to the south (BM-CAL-4, 100 % owned and operated by a third party), was declared commercial in July 2009 and named "Norte de Camarao". Five wells have been drilled on the structure in the past, (four in block BM-CAL-4), proving the presence of both oil and gas.

A Unitization process is underway and for 2009 GCA has retained volumes booked last year as Contingent Resources, best estimate - 2C of 0.9 MMBOE. This includes both oil and gas volumes considered inside the ring fence of a 50-50 unitized development.

Management Discussion and Analysis US

The US operation continued to explore and develop its acreage position in eastern New York State by drilling the Herkimer formation and extending an extensive network of gathering lines. Early in 2009 the company completed and put into production the most successful Horizontal well drilled to the Herkimer formation. That well had very strong production and produced over 0.6 Bcf of gas by the end of the year.

The 2009 drilling program focused on moving activity to the south following the pipeline route where formation depths and pressures are greater, which is expected to yield more productive wells. Because the company desired to get wells into production rather quickly, much of the drilling was limited to areas where pipeline infrastructure could be placed. Additional regulatory hurdles and requirements slowed the completion of pipeline construction and reduced the number of drilling permits available. Several wells drilled in 2008 did not get added to the production profile due to unexpected changes in the environmental and permit requirements to complete the connection of the pipeline. That process is ongoing and is expected to be completed early in 2010.

The 1P reserves increased to approximately 32.7 Bcf due to gains in PUD locations as a result of strategic drilling and infill leasing. The 2P reserves are essentially unchanged due to new locations being offset by lowered expectations from the producing properties which impacted incremental probable reserves. The company experienced some downward revisions in reserve estimates from decline analysis of a few wells with greater than expected declines. In addition, the company discovered several wells with water in the wellbore that was not being removed efficiently, the additional wellbore fluid may have restricted production and contributed to the steeper than expected declines. The company started a well intervention program at the end of 2009 to improve the efficiency of lifting fluid off the formation and improve production results. In addition, the company has started a review process to identify if any additional wells may need interventions to improve long term production profile.

Many of the wells drilled in 2009 were identified using 2D seismic data. In order to improve the subsurface illumination and identify more locations, the company is planning a strategic 3D seismic acquisition program in 2010. Because of the stacked nature of the resources in this area, this seismic data will be beneficial in more than one play on the same acreage position. The seismic is expected to provide additional information to better identify Herkimer targets and support future shale development. All of the seismic will be acquired over the current lease position and will be used to identify new drilling locations.

Because of the increased drilling activity in the Marcellus shale in Pennsylvania and other nearby states, the New York State government required regulatory bodies to review the current environmental regulations and permitting process. The New York State DEC (Department of Environmental Conservation) and other regulatory bodies used all of 2009 to craft the new sGEIS (supplemental generic environmental impact statement), which when adopted should allow for environmentally safe development of the shale resources in the state. Therefore, the state had limited drilling activity in shale formations.

However, the US company did continue to conduct activity that allowed for further understanding of both the Marcellus and Utica shale resources under the current lease position. The US group put together a shale development team to create a development plan that would allow for rapid ramp up of drilling activities once the regulations are put in place by the state. Some of the activities involved gathering more geologic data and developing horizontal well pad layouts on the current acreage position. Also, drilling activity and results from those activities by other companies in Pennsylvania located near the Norse NY properties provided analogous information about the Marcellus shale characteristics. By applying a more rigorous review of geologic and log information and using updated drilling and completion techniques Schlumberger provided the company with a revised estimate of shale resources. The result of that evaluation yielded an increase in contingent resources from 346 MMBOE (1.94 Tcf) to 697 MMBOE (3.92 Tcf) from last year. The bulk of that increase was due to using the recovery factor associated with current drilling and completion practices available in the industry.

1 UNAUDITED HISTORICAL FINANCIAL INFORMATION

1.1 Selected financial information for the Group

Summary of significant accounting policies

The selected unaudited historical consolidated financial data for Brazil Group set forth in this document has been carved out from Norse Energy's audited group financial statements for the financial years 2009, 2008 and 2007. These financial statements have been prepared in accordance with IFRS and the accounting principles that are found in the related Annual Reports for Norse Energy.

The selected unaudited carved out financial data set forth below may not contain all of the information that is important to a potential investor of shares in the demerged company. As a result, the data should be read in conjunction with the relevant financial statements and the notes to those statements.

There have been no audit qualifications in connection with the 2007-2009 financial statements for Norse Energy. In the 2008 audit report Deloitte draws attention to the Board of Directors discussion of the uncertainty concerning funding that was present at the time of the audit report, without qualifying its report.

Historical financial accounts

The unaudited carved out consolidated financial statements included in this document are derived from the historical financial statements of Norse Energy and are presented as though the Brazil Group was a separate enterprise, based upon the structures in place during the periods covered. Accordingly, such information may not reflect what the results of operations, financial position and cash flows would have been had the Brazil Group been a separate, stand-alone entity during the periods presented and it may not be indicative of the results of operations, financial position and cash flows of the Brazil Group in the future.

Basis of preparation

The following tables present data extracted from selected financial information for the Brazil Group as of and for each of the three years ended 31 December 2009, 2008 and 2007.

The unaudited carved out financial information is based on the segment information from the Norse Energy Annual Reports. The unaudited carved out financial information consists of the Brazil E&P segment in addition to the following allocations from the Norwegian parent in accordance with the demerger plan: USD 8 million in cash (adjusted for internal loans already granted, USD 4 million), the NEC01 bond loan with accrued interest, 40 % of the NECJ warrant liability, cost accruals and allocated overhead costs.

1.1.1 Unaudited Carved out Consolidated Financial Statements

(All figures in USD thousand)

(note reference to 2009 & 2008 Annual Reports)	Notes	2009 The Group Brazil Carved out	2008 The Group Brazil Carved out	2007 The Group Brazil Carved out
Oil and Gas revenue	6 & 4	34 650	73 551	46 621
Total revenue		34 650	**73 551**	**46 621**
Production costs		-4 002	-25 692	-23 221
Exploration and dry hole costs		-14 160	-22 937	-236
General and administrative expenses	6,7 & 4,5	-11 473	-15 918	-7 906
EBITDA		**5 015**	**9 004**	**15 258**
Depreciation	6,10,11 & 4,8,9	-6 809	-11 237	-24 151
Impairment	6,10,11 & 4,8,9	-13 679	-25 911	-26 159
Total operating expenses		**-50 123**	**-101 695**	**-81 673**
EBIT-Operating income/loss		**-15 473**	**-28 144**	**-35 052**
Interest revenue		3 249	4 660	2 142
Interest expense		-16 425	-16 359	-9 325
Foreign exchange gain/(loss)		24 649	5 828	6 544
Other financial income		283	2 400	-1 294
Net financial items		**11 756**	**-3 471**	**-1 933**
Net profit/(loss) before tax		-3 717	-31 615	-36 985
Income tax	6,8 & 4,6	-4 283	10 674	9 153
Profit /(Loss)after tax		**-8 000**	**-20 941**	**-27 832**

1.1.2 Unaudited Carved out Consolidated Statements of Financial position

(note reference to 2009 & 2008 Annual Reports)	Notes	2009 The Group Carved out Brazil	2008 The Group Carved out Brazil	2007 The Group Carved out
Assets				
Non-current assets				
Licence and exploration assets	10 & 8	126 300	99 759	114 705
Deferred tax asset	8 & 6	22 564	10 105	
Other non current assets		2 099	7 983	13 272
Field Investment and equipment	10 & 8	111 300	81 640	110 496
Furniture and fixtures	10 & 8	2 806	2 276	1 954
Total non current assets		**265 069**	**201 763**	**240 428**
Current assets				
Inventory	14 & 12	0	29 0	3 051
Accounts receivable and other short term assets		14 715	15 996	21 815
Cash and cash equivalents		17 105	14 891	10 489
Total current assets		**31 820**	**31 177**	**35 355**
Total assets	6 & 4	**296 889**	**232 940**	**275 783**
Equity and liabilities				
Equity		**105 015**	**67 568**	**91 957**
Long term liabilities				
Deferred tax liability		0	0	14 141
Other long term debt Brazil	18	20 928	23 416	22 561
Allocated 40 % of NEC J warrant liability	12 8.10	4 518	4 801	8 039
Total long term liabilities		**25 446**	**28 217**	**44 741**
Short term Interest bearing debt Brazil	17 & 15	80 887	78 952	74 727
Accounts payable and other current liabilities Brazil	12 & 10	33 977	10 492	15 130
Allocated accrued interest NEC01		2 703	2 198	3 117
Allocated accrued expenses		27	27	19
Allocated NEC01 bond loan	17 & 15	48 588	45 338	45 920
Total current liabilities		**166 428**	**137 156**	**139 085**
Total liabilities	6 & 4	**191 874**	**165 372**	**183 826**
Total equity and liabilities		**296 889**	**232 940**	**275 783**

1.1.3 Unaudited Carve out specifications for 2009

2009	Historical unadjusted Brazil E&P (NEC 2009 Note 6 operating segments)	Corporate	Notes	Eliminations	Notes	The Group
Revenues - external	34 650					34 650
Total revenue	**34 650**	**-**		**-**		**34 650**
Production costs	-4 002					-4 002
Exploration and dry hole costs	-14 160					-14 160
General and administrative expenses	-7 295	-4 178	1)			-11 473
EBITDA	**9 193**	**-4 178**				**5 015**
Interest revenue	3 249					3 249
Interest expense	-17 051	-4 970	2)	5 596	4)	-16 425
Foreign exchange gain/(loss)	32 837	-8 188				24 649
Other financial income	-	283	2)			283
Depreciation	-6 779	-30	1)			-6 809
Impairment	-13 679					-13 679
Income tax	-4 283					-4 283
						-
Profit after tax	**3 487**	**-17 083**		**5 596**		**-8 000**
Total Assets	292 889	**61 946**	3)	-57 946	4)	296 889
Total liabilitites	193 738	**56 082**	3)	-57 946	4)	191 874

Notes

1) From 2009 consolidation- included in Annual Report 2009 note 6 Operating segments note, corporate column:

	Norway
DD&A	3 0
Salaries and benefits	1
General and administrative	2 701
SG&A	4 477
	178

2) Financial expense

Interest expense NEC 01	4 970
40 % of NEC J Warrant costs	- 283

3) Asset/liabilities from NEC ASA according to demerger plan

Cash	4 000
Intercompany receivable Brazil	57 946
	61 946

NEC 01 bond loan Ref Annual report 2009 note 17	48 588
NEC J Warrant allocation (40 % of 11 295)- Annual report note 12	4 518
Accrued interest NEC01	2 703
40 % Accrued expenses	27 4
	56 082

4) elimination of internal loans and interest

IC receivable	57 946
IC interest	5 596

Specification of total assets 2009:

Licence and exploration assets (note 10)	126 209
Deferred tax asset (note 8)	22 564
Other non current assets	2 099
Field Investment and equipment (note 10)	111 309
Furniture and fixtures (note 10)	2 896
Total non current assets	**265 069**
Inventory (note 14)	0
Accounts receivable and other short term assets	14 715
Cash and cash equivalents	13 105
Total current assets	**27 820**
Total Brazil Segment Assets (note 6)	292 889
Allocated cash according to demerger	4 000
The Group, carved out	296 889

Specification of total liabilities 2009:

Interest bearing debt Brazil (note 17)	80 887
Accounts payable and other current liabilities Brazil (note 17)	33 977
Other long term debt Brazil (note 18)	20 928
IC debt to Norway	57 946
Total Brazil segment liabilities 2009 (note 6)	**193 738**
Eliminated IC debt	-57 946
Allocated Accrued interest NEC01	2 703
Allocated 40 % Accrued expenses	27 4
Allocated 40 % of NEC J Warrant (note 12)	4 518
Allocated Nec 01 bond loan (from NEC ASA) (note 17)	48 588
The Group, carved out	191 874

1.1.4 Unaudited Carve out specifications for 2008

2008	Historical unadjusted Brazil E&P (NEC 2008 Annual Report note 4)	Corporate	Notes	Eliminations	Notes	The Group
Revenues - external	73 551					73 551
Total revenue	**73 551**	-				**73 551**
Production costs	-25 692					-25 692
Exploration and dry hole costs	-19 092	-3 845				-22 937
General and administrative expenses	-9 001	-6 917	1)			-15 918
EBITDA	**19 766**	**-10 762**		**0**		**9 004**
Interest revenue	4 162	498				4 660
Interest expense	-15 804	-4 693	2)	4 138	4)	-16 359
Foreign exchange gain/(loss)	-16 460	22 288				5 828
Other financial income	-	2 400				2 400
Depreciation	-11 213	-24	1)			-11 237
Impairment	-25 911					-25 911
Income tax	10 674					10 674
						-
Profit after tax	**-34 786**	**9 707**		**4 138**		**-20 941**
Total Assets	228 940	**106 552**	3)	-102 552	5)	232 940
Total liabilitites	215 412	**52 512**	3)	-102 552		165 372

Notes

1) GA expense Corporate from 2008 consolidation- (included in segment note corporate

	Norwa
DD&	-
Salaries and	-2
General and	-4
G	-6

2) Financial

Interest expense Nec	-4
40 % of NEC J Warrant	-3

3) Assets/liabilities from NEC ASA according to demerger

Cash	4
Intercompany receivables NEC ASA- NEC	102
	106
NEC 01 bond loan Ref Annual report 2008 note	45
NEC J Warrants (40% of 12	4
Accrued interest	2
40% of accrued	27
	52

4) Elimination of internal loans and

IC	102
IC	4

Specification of total assets 2008:	
Licence and exploration assets (note 8)	99 759
Deferred tax asset (note 6)	10 105
Other non current assets	7 983
Field Investment and equipment (note 8)	81 640
Furniture and fixtures note 8)	2 276
Total non current assets	**201 763**
Inventory (note 12)	29 0
Accounts receivable and other short term assets	15 986
Cash and cash equivalents	10 891
Total current assets	**27 177**
Total Brazil segment assets (note 4)	228 940
Allocated cash according to demerger	4 000
The Group, carved out	232 940
Specification of total liabilities 2008:	
Interest bearing debt Brazil (note 15)	78 952
Accounts payable Brazil	10 492
IC debt to Norway	102 553
Total Brazil segment liabilities 2008 (note 4)	**215 412**
Eliminated IC debt	-102 553
Accrued interest NEC01	2 198
40% of accrued expenses	27 6
Allocated 40 % of NEC J Warrant (note 10)	4 801
Allocated Nec 01 bond loan (note 15)	45 238
The Group, carved out	165 372

1.1.5 Unaudited Carve out specifications for 2007

(Amounts in USD 1 000)	Brazil E&P (NEC 2008 Annual Report note 4)	Corporate	Notes	Eliminations	Notes	The Group
						-
Revenues - external	46 621					46 621
Total revenue	46 621					46 621
Production costs	-23 221					-23 221
Exploration and dry hole costs	-236					-236
General and administrative expenses	-5 135	-2 771	1)			-7 906
						-
EBITDA	18 029	-2 771				15258
Interest revenue	2 142					2 142
Interest expense	-6 326	-5 877	2)	2878	4)	-9 325
Foreign exchange gain/(loss)	6 544					6 544
Other financial income		-1 294	5)			-1 294
Depreciation	-24 138	-13	1)			-24 151
Impairment	-26 159					-26 159
Share of profit of an associate and/or joint ventures	-					-
Income tax	9 153					9 153
	-					-
Profit after tax from continuing operations	**-20 755**	**-9 955**		**2 878**		**-27 832**
Total Assets	271 783	**84 491**	3)	-80 491	4)	275 783
Total Liabilitites	207 050	**57 267**	3)	-80 491	4)	183826

Notes

1) From 2007 consolidation- included in segment note corporate column:

	Norway
DD&A	-
Salaries and benefits	-1 13
General and administrative	-1 195
SG&A	-2 576
	771

2)Interest expense Nec 01	5 877
Included in corporate column in segment note (4)	

3) Assets/Liabilities from NEC ASA according to demerger plan

Cash	4 000
Intercompany receivables NEC ASA- NEC Brasil	80 491
	84 491

Nec 01 Unsecured bond loan (MNOK 300)	54 689
Currency swap (fair value through P&L)	-8 769
NECJ Warrant allocation(40 % of 20 098)	8 039
Accrued interest NEC 01	3 117
40% of accrued expenses	19 1
	57 267

4) elimination of internal loans and interest

IC receivable	80 491
IC interest	2 878

5) NEC J Warrant 40 % allocated to Brazil (3 235* 40%)	-1 294

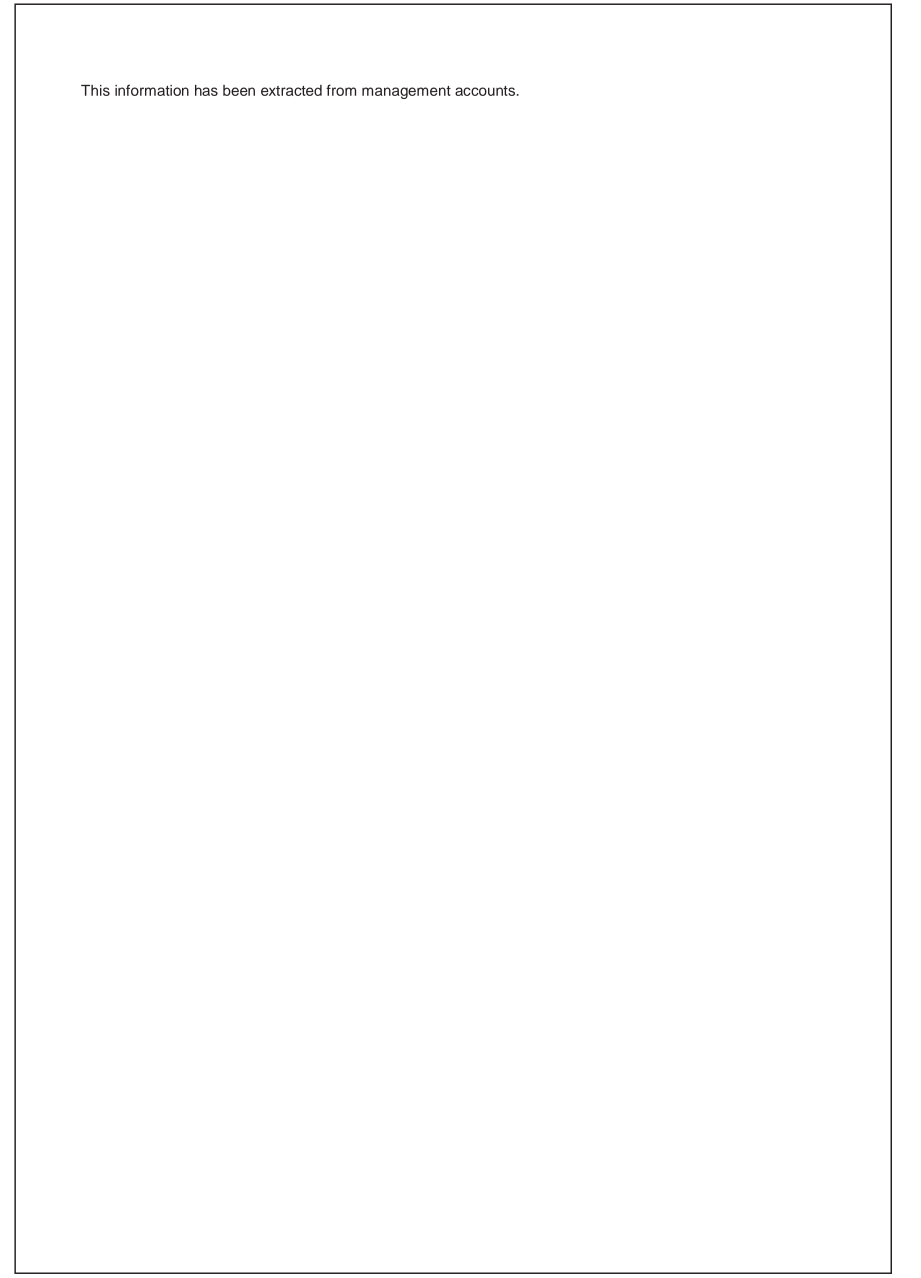
Specification of total assets 2007:
(reference to 2007 figures in notes to the 2008 Annual report)

Licence and exploration assets (note 8)	114 705
Deferred tax asset (note 6)	0
Other non current assets	13 772
Field Investment and equipment (note 8)	110 496
Furniture and fixtures (note 8)	1 954
Total non current assets	**240 428**
Inventory (note 12)	3 051
Accounts receivable and other short term assets	21 815
Cash and cash equivalents	6 489
Total current assets	**31 355**
Total Brazil Segment Assets (note 4 2008 Annual Report)	271 783
Allocated cash according to demerger	4 000
The Group, carved out	275 783

Specification of total liabilities: 2007

Interest bearing debt Brazil (note 15 2008, note 17 2007)	74 727
Accounts payable Brazil (notes 6, 10)	15 130
Deferred tax liability (note 6)	14 141
Other long term debt Brazil	22 561
IC debt to Norway	80 491
Total segment liabilities (note 4 2008 Annual Report)	**207 050**
Eliminated IC debt	-80 491
Accrued interest NEC01	3 117
40% of accrued expenses	19 1
Allocated 40 % of NEC J Warrant (from NEC ASA)	8 039
Allocated Nec 01 bond loan (note 17 2007)	45 920
The Group, carved out	183 826

APPENDIX 10: Q2 2010 INCOME STATEMENT FOR PAN PETROLEUM HOLDING’S (CYPRUS) LIMITED



This information has been extracted from management accounts.

PAN-PETROLEUM HOLDINGS (CYPRUS) LIMITED
HISTORICAL 2Q 2010 INCOME STATEMENT

PAN GROUP **INCOME STATEMENT - Six months ended 30 June 2010 (Pre-acquisition)** **Management accounts - Unaudited**	**YTD** **2010** **USD 000**
Oil and Gas revenue	-
Other income	527
Total revenues and other income	527
Production costs	-
Exploration and dry-hole costs	-
General and administrative costs	-4 552
Share based payments	-4 206
Merger and restructuring costs	-1 202
EBITDA	**-9 433**
Depreciation	-83
EBIT - Operating income/(loss)	**-9 517**
Gain on acquisition of subsidiary	-
Net finance income/(costs)	-252
Net foreign exchange gain/(loss)	-155
Warrants effect - gain/(loss)	-
Income/(loss) before tax	**-9 923**
Income tax benefit/(expense)	56
Net income/(loss) for the period	**-9 867**

New Brazil Holding ASA

Årsregnskap 2009 omarbeidet til IFRS

New Brazil Holding ASA
Årsregnskap 2009 omarbeidet til IFRS

Oppstilling av Totalresultat

USD	Note	28.04 - 31.12 2009
Driftsinntekt		0
Sum inntekter		**0**
Annen driftskostnad	3	0
Driftsresultat		**0**
Annen finansinntekt		16
Annen finanskostnad		0
Ordinært resultat før skattekostnad		**16**
Skattekostnad på ordinært resultat		0
Ordinært resultat		**16**
Årsresultat		**16**
Andre inntekter og kostnader		
Andre inntekter og kostnader		**0**
Totalresultat		**16**
Anvendelse av totalresultatet		
Annen Egenkapital		16
Sum anvendelse		**16**

New Brazil Holding ASA
Årsregnskap 2009 omarbeidet til IFRS

Balanse

USD	Note	31.12.2009
EIENDELER		
Omløpsmidler		
Bankinnskudd		173 327
Sum omløpsmidler		**173 327**
SUM EIENDELER		**173 327**
EGENKAPITAL OG GJELD		
Egenkapital		
Innskutt egenkapital		
Aksjekapital	2	17 331
Innbetalt, ikke registrert kapital	2	155 979
Sum innskutt egenkapital		**173 310**
Opptjent egenkapital		
Annen egenkapital		16
Sum opptjent egenkapital		**16**
Sum egenkapital		**173 327**
Sum egenkapital og gjeld		**173 327**

Oslo, 6 mai 2010

Dag Erik Rasmussen
Styrets leder

Katherine H. Støvring
Styremedlem

Ragnar Søegaard
Styremedlem

Øivind Risberg
Administrerende direktør

New Brazil Holding ASA
Årsregnskap 2009 omarbeidet til IFRS

Kontantstrømoppstilling

USD	Note	31.12.2009
Kontantstrømmer fra operasjonelle aktiviteter		
Resultat før skatt		16
Betalbar skatt		0
Ordinære avskrivninger		0
Endring i andre tidsavgrensningsposter		0
Netto kontantstrøm fra operasjonelle aktiviteter		**16**
Kontantstrømmer fra investeringsaktiviteter		
Investeringer i varige driftsmidler		0
Salg av varige driftsmidler (salgssum)		0
Netto kontantstrøm fra investeringsaktiviteter		**0**
Kontantstrømmer fra finansieringsaktiviteter		
Kapitalforhøyelse		155 979
Netto kontantstrøm fra finansieringsaktiviteter		**155 979**
Netto endring i likvider i året		155 996
Kontanter og bankinnskudd per 28.04		17 331
Kontanter og bankinnskudd per 31.12		**173 327**

New Brazil Holding ASA
Årsregnskap 2009 omarbeidet til IFRS

Oppstilling av endringer i egenkapitalen

USD	Aksjekapital	Annen innslutt egenkapital	Annen egenkapital	Sum Egenkapital
Egenkapital ved stiftelse 28.04.2009	17 331	0	0	17 331
Kapitalforhøyelse 18.12.2009	0	155 979	0	155 979
Totalresultat 2009	0	0	16	16
Egenkapital 31.12.2009	17 331	155 979	16	173 327

Selskapet besluttet 18. desember 2009 å øke aksjekapitalen med kr. 900.000. Kapitalforhøyelsen ble registrert i Brønnøysundregisteret 11. januar 2010. Selskapet ble besluttet omdannet fra aksjeselskap til et almennaksjeselskap 21. desember 2009.

New Brazil Holding ASA
Årsregnskap 2009 omarbeidet til IFRS

Noter

Note 1 Regnskapsprinsipper

Selskapets regnskapsprinsipper er NGAAP. Årsregnskapet for 2009 er således avlagt etter NGAAP. Årsregnskapet for 2009 er i dette dokumentet konvertert til IFRS til bruk i prospekt i forbindelse med søknad om børsnotering. IFRS regnskapet er rapportert i USD. Dette regnskapet består av resultatregnskap, balanse, noteopplysninger , kontantstrømoppstilling og oppstilling av endringer i egenkapitalen.

Note 2 Aksjekapital og aksjonærer
Selskapets aksjekapital er kr 1.000.000,- fordelt på 10 000 aksjer hver pålydende a kr 100,-
Aksjene er eiet 100 % av Norse Energy Corp. ASA. Morselskapet har besøksadresse Dr. Maudsgt. 3, 0124 Oslo

Note 3 Ytelser til ledende personer m.v.
Det har ikke vært ansatte i selskapet i 2009
Det er ikke utbetalt godtgjørelse til selskapets styre
Det er ikke kostandsført noe honorar for lovpålagt revisjon til revisor i 2009

Note 4 Hendelser etter balansedagen
Selskapet er overtakende selskap i den vedtatt fisjons-fusjonen med Norse Energy Corp. ASA. Fisjonen skal ha økonomisk o regnskapsmessig virkning fra 1.1.2010.

Deloitte AS
Karenslyst allé 20
Postboks 347 Skøyen
N-0213 Oslo
Norway

Tlf: +47 23 27 90 00
Faks: +47 23 27 90 01
www.deloitte.no

Til styret i New Brazil Holding ASA

REVISJONSBERETNING FOR ÅRSREGNSKAP 2009 OMARBEIDET TIL IFRS

Vi har revidert Årsregnskap 2009 omarbeidet til IFRS for New Brazil Holding ASA for regnskapsåret 2009, som viser et totalresultat på USD 16. Årsregnskapet består av oppstilling av balanse ved slutten av perioden, oppstilling av totalresultat for perioden, oppstilling av endringer i egenkapital for perioden oppstilling av kontantstrømmer for perioden og noteopplysninger. International Financial Reporting Standards som fastsatt av EU er anvendt ved utarbeidelse av regnskapet. Årsregnskapet er avgitt av selskapets styre og daglig leder. Vår oppgave er å uttale oss om årsregnskapet og øvrige forhold i henhold til revisorlovens krav.

Vi har utført revisjonen i samsvar med lov, forskrift og god revisjonsskikk i Norge, herunder revisjonsstandarder vedtatt av Den norske Revisorforening. Revisjonsstandardene krever at vi planlegger og utfører revisjonen for å oppnå betryggende sikkerhet for at årsregnskapet ikke inneholder vesentlig feilinformasjon. Revisjon omfatter kontroll av utvalgte deler av materialet som underbygger informasjonen i årsregnskapet, vurdering av de benyttede regnskapsprinsipper og vesentlige regnskapsestimater, samt vurdering av innholdet i og presentasjonen av årsregnskapet. I den grad det følger av god revisjonsskikk, omfatter revisjon også en gjennomgåelse av selskapets formuesforvaltning og regnskaps- og intern kontrollsystemer. Vi mener at vår revisjon gir et forsvarlig grunnlag for vår uttalelse.

Vi mener at

- årsregnskapet er avgitt i samsvar med lov og forskrifter og gir et rettvisende bilde av selskapets økonomiske stilling 31. desember 2009 og av resultatet, kontantstrømmene og endringene i egenkapital i regnskapsåret i overensstemmelse med International Financial Reporting Standards som fastsatt av EU
- ledelsen har oppfylt sin plikt til å sørge for ordentlig og oversiktlig registrering og dokumentasjon av regnskapsopplysninger i samsvar med lov og god bokføringsskikk i Norge

Oslo, 6. mai 2010
Deloitte AS

Ingebret G. Hisdal
statsautorisert revisor

Deloitte refers to one or more of Deloitte Touche Tohmatsu, a Swiss Verein, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/no/omoss for a detailed description of the legal structure of Deloitte Touche Tohmatsu and its member firms.

Member of Deloitte Touche Tohmatsu

Medlemmer av Den Norske Revisorforening
org.nr: 980 211 282

Panoro Energy ASA

Dronning Maudsgate 3

P.O. Box 1885 Vika

0124 Oslo Norway

Tel: +47 23 01 10 00

Fax: +47 23 01 10 19

Arctic Securities ASA

Haakon VII's gate 5

P.O. Box 1833 Vika

NO-0123 Oslo Norway

Tel: +47 21 01 31 00

Fax: +47 21 01 31 39

Pareto Securities AS

Dronning Mauds gate 3

P.O. Box 1411 Vika

0105 Oslo

Norway

Tel: +47 22 87 87 00

Fax: +47 22 87 87 10

www.pareto.no

www.kursiv.no