

THIRD QUARTER REPORT 2011

22 NOVEMBER, 2011

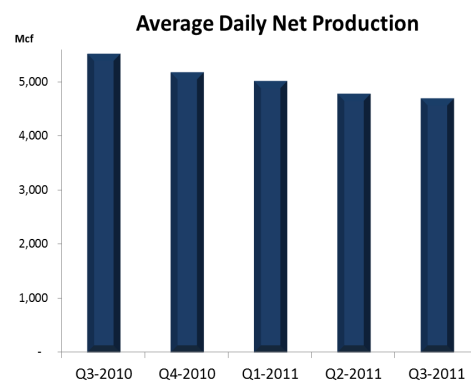
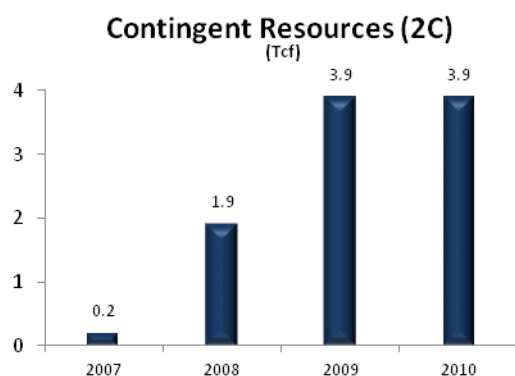
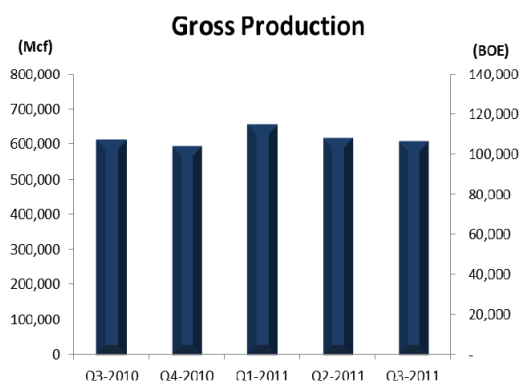
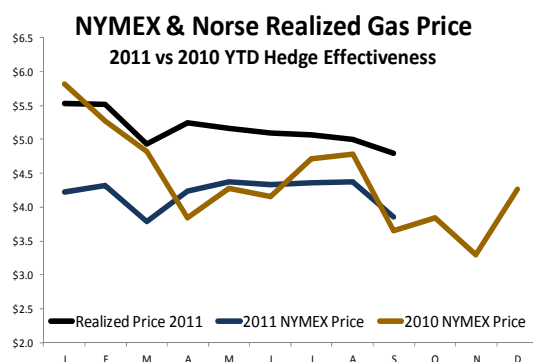




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The front cover is a picture taken of a Utica Shale outcropping in Nowadaga Creek in Herkimer County, New York.



Norse Energy had total contingent resources of 3.9 TCF (~700 MMBOE) 31 December 2010. The Company has a significant land position of 180,000 net acres in New York State. Norse Energy is listed in Norway and in the US. (OSE ticker code "NEC", U.S. OTCQX symbol "NSEY").



THIRD QUARTER HIGHLIGHTS AND SUBSEQUENT EVENTS

(All references to USD in this report are in USD thousands unless the text indicates otherwise)

Corporate

- The draft Supplemental Generic Environmental Impact Statement (SGEIS) regarding the establishment of rules allowing the use of high volume hydraulic fracturing to develop natural gas resources in the state of New York was issued on 7 September 2011 by the New York State Department of Environmental Conservation (DEC). A public comment period is being conducted through 12 December 2011, followed by a review of comments before issuance of the final SGEIS. See Regulatory Update of this report for further details.
- The Company received a request for an Extraordinary General Meeting (EGM) from a shareholders' group representing more than five percent of outstanding Norse shares. The purpose of the EGM is to vote on replacing board members Dag Erik Rasmussen and Katherine Støvring with Cecilie Amdahl and former Norse CEO Øivind Risberg, respectively. The EGM summons was issued on 1 November 2011 for a meeting date on 22 November 2011 in Oslo.
- In order to prepare for potential financing scenarios, the EGM will also vote on various capital raising initiatives. These initiatives will include a proposed increase in the authorized share capital, a proposed reduction in the par value of the company's common stock, authorization to issue convertible debt securities, authorization to issue warrants, and a revised authorization to execute a reverse stock split of the Company's shares. Visit www.norseenergy.com for the full summons and related information.
- The Company appointed J. Chris Steinhäuser as Chief Financial Officer, S. Dennis Holbrook as Chief Legal Officer, and Nazir Ali as Executive Vice President of Operations and Reservoir Management, all of whom have extensive experience in the Company and the oil and gas industry.

Operational

- In anticipation that rules allowing the use of high volume hydraulic fracturing to develop natural gas resources in the state of New York will soon be in place, the Company elected to suspend Herkimer drilling on 5 August 2011. The suspension of drilling will allow the Company to focus on potentially more profitable Marcellus and Utica Shale planning, permitting and development.
- The Company completed staff reductions of approximately thirty percent of its work force on 20 September 2011 to reduce its overhead costs while awaiting the opportunity to drill into the Marcellus and Utica shale formations in New York. As a result, the Company expects to experience reduced overhead costs commencing in the fourth quarter.
- The Company reported gross production at its field meter stations, of 6,489 Mcf/d (1,156 Boe/d) in Q3-11, a decrease of 2% from 6,645 Mcf/d (1,184 Boe/d) in Q2-11. Net volume for Q3-11 was 4,696 Mcf/d (837 Boe/d) a decrease of 2% from 4,774 Mcf/d (851 Boe/d) in Q2-11.
- Several wells that had been shut-in were brought back on line in late September. Consequently, daily gross production as 15 November 2011 was approximately 7,000 Mcf/d (1,247 Boe/d). One new well was brought into production during the quarter.

Financial

- As of 30 September, the Company's cash balance was USD 12.3 million. The cash position is sufficient to fund the Company through the fourth quarter of 2011. The Company is aggressively pursuing asset sales to improve the balance sheet and liquidity.
- To allow additional time for asset sales, NEC approached the Norwegian Loan Trustee and key bondholders in mid-August on an informal basis seeking a 180 day waiver from the equity covenants in its bond agreements. The key bondholders made a counterproposal to recapitalize the Company with a combination of securities that may include new equity, a conversion of bond debt to equity and, potentially, a lesser amount of new debt with a more accommodating covenant package. For more information see the Cash and Liquidity section of this report.
- The Company purchased USD 8.0 million nominal value of the Company's NEC 02 bonds in open market purchases at a discount from par on 23 August 2011. The Company recorded a gain of approximately USD 2.4 million gain on the early extinguishment of debt as a result of the transactions.

Group Consolidated Results

Group Consolidated Results

(in USD thousands)

	2011 Q3	2010 Q3	% change	2011 YTD	2010 YTD	% change
Oil and gas revenue	2,151	3,075	-30%	6,809	10,127	-33%
Fair value adjustments and other income	2,030	1,161	75%	1,475	1,746	-16%
Total Revenue	4,181	4,236	-1%	8,284	11,873	-30%
EBITDA*	(2,090)	(4,151)	50%	(10,338)	(10,434)	1%
Exploration costs	831	1,738	-52%	2,689	5,006	-46%
EBITDAX**	(1,259)	(2,413)	48%	(7,649)	(5,428)	-41%

* EBITDA is defined as Earnings (Net Income) before Interest, Taxes and Depreciation and Amortization.

** EBITDAX is an industry adjustment to EBITDA which adds back non-recurring (discretionary) expense for exploration. For further detail see the Glossary on the last page of this report.



CORPORATE OVERVIEW

Environment, Health and Safety

There were no employee lost time injuries reported during the quarter.

The Company's Environment, Health and Safety (EHS) Management System has been reviewed and updated to meet the Company's objectives, following the third quarter "re-sizing" of the Company. Ongoing construction work at the Davis and Bradley Brook compressor stations has been performed safely without incidents.

Operational

Norse Energy announced on 5 August 2011 that it had elected to suspend Herkimer drilling to focus on the potentially more profitable Marcellus and Utica shale planning, permitting and development.

On 8 July 2011, Norse Energy filed its first application for a permit to drill a shale well in New York State using high volume hydraulic fracturing. The permit is expected to be issued when final SGEIS regulations are in place. An application to drill a second shale well was filed on 25 October 2011. These drilling permit applications are expected to facilitate the commencement of shale gas development following SGEIS approval.

The Company completed staff reductions of approximately thirty percent of its work force in the quarter. The Company is working diligently to further reduce overhead costs while awaiting the opportunity to drill in the Marcellus and Utica shale formations in New York. Earlier this year, Norse had also reduced staff in association with the sale of non-essential pipeline and marketing assets. Including these adjustments, the Company has reduced its work force by approximately 50 percent since the beginning of 2011.

The Company drilled eight horizontal Herkimer wells on 3D seismic in late 2010 through 2011 with an average IP-30 of ~1,000 Mcf/d. This result was in line with the Company's expectations. Well costs, however, significantly exceeded Company expectations. The Company is evaluating opportunities to maximize the value of the Herkimer play through more efficient production operations or a possible asset sale.

Gathering System

Installation of a six inch steel pipeline from the Company's Bradley Brook Compressor Station (BBCS) to its new Dominion Tap is ~95% complete. With future compression upgrades, projected capacity into the Dominion Pipeline will increase to ~25,000 Mcf/d. This higher capacity will support current Herkimer production and the Company's initial shale development plan.

Installation of noise abatement equipment at the BBCS, is now complete.

Regulatory Update

The draft Supplemental Generic Environmental Impact Statement (SGEIS) was issued by the New York State Department of Environmental Conservation (DEC) on 7 September 2011 followed by proposed regulations to implement the SGEIS. The public comment period for both will run through 12 December, 2011 with a review of those comments before issuance of the final SGEIS and corresponding regulations.

Concurrent development of the regulations to implement the SGEIS will allow the industry to move quickly toward successful shale development, once the SGEIS is issued, which is anticipated in early 2012.

A positive outcome of the regulatory process will enable Norse to explore and drill the Marcellus and Utica formations in New York State on its own or with partners in industry joint ventures, in which partners may provide operating expertise and/or capital contributions to the development of defined acreage. The issuance of final regulations is also likely to increase the interest of other natural gas production companies and/or midstream natural gas transmission companies in the potential acquisition of certain of the company's assets if they were to be offered for sale.

The full DEC press release and the draft SGEIS can be found at the following link:

<http://www.dec.ny.gov/energy/75370.html>

Executive Appointments

The Company announced on 21 September 2011 that J. Chris Steinhauser was appointed as its new Chief Financial Officer. Before joining Norse Energy, Mr. Steinhauser held the CFO position in GeoPetro Resources. He has served on a number of public and private industry Boards and has held senior management positions in four publicly traded upstream and midstream energy companies. Mr. Steinhauser joined Norse Energy in April of 2010 as Executive Vice President of Mergers and Acquisitions. He will continue to serve in this capacity in addition to assuming the duties of CFO.

The Company announced on 4 November that S. Dennis Holbrook was appointed as Chief Legal Officer. Mr. Holbrook joined Norse on 1 October 2008 as Executive Vice President for Regulatory Compliance and Public

Relations after representing the Company for many years as its legal counsel. Mr. Holbrook has nearly forty years' experience in the oil and gas industry, having worked on energy issues in the U.S Senate, the Federal Energy Administration, the Gas Industry Standards Board, and as an attorney and energy industry executive. Mr. Holbrook is on the board of directors of the Independent Oil and Gas Association of New York (IOGA) and has served in that capacity for over twenty-five years. He holds a BA from Bucknell University, a Juris Doctorate with honors from the Catholic University Law School and is a graduate of the Executive Development Program of the University of Michigan Graduate School of Business Administration.

The Company also announced on 4 November that Nazir Ali was appointed as Executive Vice President of Operations and Reservoir Management. Mr. Ali has worked in the energy industry for more than thirty-five years. He previously held senior leadership and operational roles in BP's Exploration and Production Division. His expertise includes development and implementation of technical best practices throughout the life cycle of producing fields. Mr. Ali was overseeing Reservoir Engineering at Norse immediately before assuming his new duties in operations. He holds a BSc in Chemical Engineering and an Executive MBA from Rice University.

Management Discussion & Analysis

Selected financial data for three months ending 30 September 2011 and 2010

(in USD thousands, except volume & sale price)

	2011 Q3	2010 Q3	% change	Amount Change
Production volume net to Norse Energy (Mcf)	432,044	506,994	-15%	-74,950
Sales price (\$/Mcf)	\$4.96	\$6.05	-18%	-1.09
Oil and gas revenue	2,151	3,075	-30%	-924
Fair value adjustments and other income	2,030	1,161	75%	869
Total revenue	4,181	4,236	-1%	-55
Production expense	1,062	1,164	-9%	-102
General & administrative expense	4,378	5,485	-20%	-1,107
EBITDA	(2,090)	(4,151)	50%	2,061
Exploration expense	831	1,738	-52%	-907
EBITDAX	(1,259)	(2,413)	48%	1,154
Depreciation	1,804	2,792	-35%	-988
Impairment	6,800	15,507	-56%	-8,707
Interest expense	3,623	3,838	-6%	-215
Tax expense (benefit)	0	(4,573)	100%	4,573
Net loss	(9,905)	(25,145)	61%	15,240

Results of Third Quarter 2011 Compared to Third Quarter 2010

Natural gas sales volume was 432,044 Mcf (77,013 BOE) in the quarter compared to 506,994 Mcf (90,373 BOE) in the same period last year, a 74,950 Mcf decrease, or 15%. Net production volume was down from the third quarter of 2010 due to the suspension of drilling in August 2011, wells which were temporarily shut-in, and natural field decline. The effective natural gas price realized in the quarter was USD 4.96/Mcf compared to USD 6.05/Mcf realized in the same period last year, a USD 1.09/Mcf decrease, or 18%. The average NYMEX monthly settlement price in the third quarter of 2011 was USD 4.19/Mcf compared to USD 4.38/Mcf in the third quarter of 2010, a USD 0.19/Mcf increase, or 4%. The decrease in the realized price is the result of a lower average price for the Company's hedge contracts compared with the same period last year.

Oil and gas revenue in the quarter was USD 2,151 compared to USD 3,075 in the same period last year, a USD 924 decrease, or 30%. The decrease in production volume accounted for 49%, or USD 453, of the oil and gas revenue decline and reduced realized price accounted for 51%, or USD 471 of the decline. Fair value adjustments and other income in the quarter was USD 2,030 compared to USD 1,161 in the same quarter last year, a USD 869 increase, or 75%. The increase in fair value adjustments and other income was primarily comprised of USD 600 from joint venture fees and an unrealized mark-to-market increase on hedge contracts of USD 240.

Production expense for the quarter was USD 1,062 compared to USD 1,164 for the same period last year, a USD 102 decrease, or 9%. The decreased costs were the result of lower compression charges and well work-over activity. General and administrative expense in the quarter was USD 4,378 compared to USD 5,485 in the same period last year, a USD 1,107 decrease, or 20%, due to executive severance compensation expense in 2010.

EBITDA was USD -2,090 in the third quarter of 2011 compared to USD -4,151 in the third quarter of 2010, a USD 2,061 increase, or 50%. Exploration cost was USD 831 in the quarter compared to USD 1,738 in the same period last year, a USD 907 decrease, or 52%, due to less 3D seismic expenditures. EBITDAX was USD -1,259 in the third quarter of 2011 compared to USD -2,413 in the third quarter of 2011, a USD 1,154 decrease, or 48%.

Depreciation expense was USD 1,804 in the quarter compared to USD 2,792 in the same period last year, a USD 988 decrease, or 35%, due to the lower production mentioned above and the impairments recorded in 2010 and 2011. Impairment in the third quarter 2011 was USD 6,800 attributable to decreasing commodity market prices.

Interest expense was USD 3,623 in the third quarter of 2011 compared to USD 3,838 in the third quarter of 2010, a USD 215 decrease, or 6%, as a result of the extinguishment of approximately \$9 million of bond coupon and

capitalized interest on capital projects. Taxes were USD 0 in the third quarter compared to a USD 4,573 benefit recorded in the third quarter of 2010. The Company is no longer recognizing tax benefits from its net operating losses as it recorded a full allowance against its net deferred tax asset in Q4 2010.

In the third quarter of 2011, the Company had a net loss of USD -9,905 compared to USD -25,145 in the third quarter of 2010, a USD 15,240 decrease, or 61%.

Selected financial data for nine months ending 30 September 2011 and 2010

(in USD thousands, except volume & sale price)

	2011 YTD	2010 YTD	% change	Amount Change
Production volume net to Norse Energy (Mcf)	1,317,214	1,641,114	-20%	-323,900
Sales price (\$/Mcf)	\$5.15	\$6.15	-16%	-1.00
Oil and gas revenue	6,809	10,127	-33%	-3,318
Fair value adjustments and other income	1,475	1,746	-16%	-271
Total revenue	8,284	11,873	-30%	-3,589
Production expense	3,444	2,188	57%	1,256
General & administrative expense	12,489	15,113	-17%	-2,624
EBITDA	(10,338)	(10,434)	1%	96
Exploration expense	2,689	5,006	-46%	-2,317
EBITDAX	(7,649)	(5,428)	-41%	-2,221
Depreciation	5,452	8,688	-37%	-3,236
Impairment	10,768	15,507	-31%	-4,739
Interest expense	11,273	10,207	10%	1,066
Tax expense (benefit)	4,973	(9,913)	150%	14,886
Net loss	(40,069)	(17,147)	-134%	-22,922

Results of Nine Months in 2011 Compared to Nine Months in 2010

Natural gas sales volume was 1,317,214 Mcf (234,797 BOE) in the nine months ended 30 September 2011 compared to 1,641,114 Mcf (292,534 BOE) for the same nine months in 2010, a 323,900 Mcf decrease, or 20%. The lower net volume in 2011 was the result of wells which were temporarily shut-in and natural field decline compared to 2010. Drilling was suspended for most of 2010 to analyze the Company's Herkimer well performance and to acquire a 3D seismic program on the Company's acreage. Drilling recommenced in October 2010 with the addition of joint venture partners, which was suspended in August of 2011.

The effective natural gas price realized in the nine months of 2011 was USD 5.15/Mcf compared to USD 6.15/Mcf for nine months of 2010, a USD -1.00/Mcf decrease, or 16%, due to lower average prices in the Company's hedge contracts. The average NYMEX monthly settlement price in 2011 was USD 4.21/Mcf compared to USD 4.59/Mcf in 2010, a USD 0.38/Mcf decrease, or 8%.

Oil and gas revenues in the nine months of 2011 were USD 6,809 compared to USD 10,127 in the same nine months of 2010, a USD 3,318 decrease, or 33%. The decline in oil and gas revenue is a result of both lower net production volumes and lower realized commodity prices. The decreased net production volume accounted for 60%, or USD 1,991, of the decline and the lower realized price accounted for 40%, or USD 1,327, of the decline. Fair value adjustments and other income for the nine months of 2011 were USD 1,475 compared to USD 1,746 for the same period last year, a USD 271 decrease, or 16%. Fair value adjustments and other income includes a USD 540 unrealized mark-to-market gain on the Company's natural gas hedges in 2011 compared to a USD 1,606 gain in 2010. Other income was USD 935 in the nine months of 2011 compared to USD 140 in 2010 primarily due to joint venture operating fees.

Production expense was USD 3,444 in the nine months of 2011 compared to USD 2,188, a USD 1,256 increase, or 57%. The increased costs were due to higher property taxes and field compliance and maintenance projects. General and administrative expense for the nine months of 2011 were USD 12,489 compared to USD 15,113 in the same period of 2010, a USD 2,624 decrease, or 17%, as a result of cost cutting measures being taken during 2011.

EBITDA was USD -10,338 in the nine months ended in 2011 compared to USD -10,434 in the same period for 2010, a USD 96 decrease, or 1%. Exploration expense was USD 2,689 in 2011 compared to USD 5,006 in 2010, a USD 2,317 decrease, or 46%. The higher exploration expense in 2010 was a result of the 3D seismic program that covered 38,000 of the Company's total 130,000 acres in Western New York. EBITDAX was USD -7,649 for the nine months of 2011 compared to USD -5,428 in the nine months of 2010, a USD 2,221 decrease, or 41%.

Depreciation expense was USD 5,452 in the nine months of 2011 compared to USD 8,688 in 2010, a USD 3,236 decrease, or 37%. The decline in depreciation during 2011 reflects the impairment charges taken in 2010 and 2011 and lower production in 2011. Impairment for the nine months of 2011 was USD 10,768 compared to USD 15,507 in 2010, a 31% decrease.

Interest expense was USD 11,273 in the nine months of 2011 compared to USD 10,207 for the nine months of 2010, a USD 1,066 increase, or 10%, as a result of a step up in interest rates on the Company's bond debt due to restructuring the bonds on 30 June 2010 which was partially offset by debt principal payments made in the latter part of the third quarter.

Tax expense was USD -4,973 in 2011 compared to a USD 9,913 benefit in the same nine month period of 2010. The tax expense in 2011 is due to a non-cash tax valuation allowance as a result of the sale of the midstream

assets. The Company is no longer recording a tax benefit from its net loss operating position as it recorded a full allowance against its net deferred tax asset in Q4 2010.

Net loss was USD -40,069 for the nine months ended 30 September 2011 compared to a USD -17,147 net loss in the same nine months of 2010, a USD 22,922 increase, or 134%. The change is due primarily to the large gain and reclassification adjustment related to the demerger of Norse Energy do Brasil recognized in 2010 within discontinued operations.

Cash, Liquidity, Funding, Bond Covenants & Discussions with Key Bondholders

As of 30 September the Company's cash balance was USD 12.3 million and the Company was in compliance with its bond covenants. The cash position is sufficient to fund the Company through the fourth quarter of 2011. The Company is aggressively pursuing asset sales with the help of financial advisors to improve the balance sheet and liquidity, since the cash flow generated from the producing Herkimer wells is not sufficient to finance continued operations.

To allow additional time for asset sales, NEC approached the Norwegian Loan Trustee and key bondholders in mid-August on an informal basis seeking a 180 day waiver from the equity covenants in its bond agreements. The key bondholders made a counterproposal, which the Company has taken under advisement, to recapitalize the Company with a combination of securities that may include new equity, a conversion of bond debt to equity and, potentially, a lesser amount of new debt with a more accommodating covenant package.

The Company announced a prospective bond covenant non-compliance as early as September, 2011 which was remedied when the Company purchased USD 8.0 million nominal value of the Company's NEC 02 bonds in open market purchases at a discount from par on 23 August 2011. The Company recorded an approximately USD 2.4 million gain on the early extinguishment of debt as a result of the transactions.

The Company announced on 13 September 2011 that the Company has held discussions with a small group of existing shareholders and institutional investors regarding a potential private placement of shares in the Company. These investors have expressed interest in a potential private placement. The feedback was that these investors would like to see an equity transaction which includes an element of debt restructuring. NEC continues to evaluate such alternative solutions to address its liquidity and covenant issues.

The Company may face challenges related to bank and bond covenants compliance and liquidity in the future.

As the SGEIS process continues to progress investor interest is expected to increase. A positive outcome of the SGEIS regulatory process will enable Norse to develop the Marcellus and Utica shale formations in New York State on its own and with partners. In addition, a positive SGEIS outcome is also likely to increase interest from companies seeking to acquire the Company's existing gathering system and pipeline right of way assets.

If the asset sales are unsuccessful, or not timely, the Company will seek refinancing in the capital markets which could include both debt and equity alternatives and the possible conversion of the Company's bond debt into equity.

Reserve Based Lending

The Company's Reserve Based Lending balance was USD 12 million at quarter end, excluding open letters of credit outstanding of USD 3 million.

In the Company's bank agreement, the Company is required to maintain a defined working capital ratio, minimum net worth, a ratio of general and administrative expense to net revenues, senior debt to EBITDAX, and other non-financial covenants related to its reserve base lending. At 30 September 2011, the Company was not in compliance with both the general and administrative expense to net revenues covenant and the senior debt to EBITDAX covenant. The Company has communicated its position with its bank and expects to receive waivers from the lender. In the waiver request granted by the bank for the second quarter, the Company agreed to a \$500,000 per month reduction in the outstanding loan amount beginning in 31 October 2011.

Going Concern Assumption

The third quarter 2011 financial statements have been prepared pursuant to the going concern assumption, in accordance with Section 3-3a of the Norwegian Accounting Act. This assumption was made based on the financial position of the Company at the balance sheet date of this report. As described above the Company's continued operations is dependent on the successful resolution of the financial challenges facing the Company. For further information please refer to Note 8.

Risk Factors

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

Natural Gas Price

Natural gas is an energy commodity. Substantial or prolonged decline in gas prices could have a material adverse effect on our operations and our financial condition. Future prices cannot be predicted with any degree of certainty. In addition to the adverse effects on our financial condition, lower prices can lead to reviews for asset

impairment that could have material effect on the results of our operations. The Company hedges a portion of its future natural gas sales to provide some price stability in its base production.

Exploration and Development Cost & Reserve Volume

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

The Company has no history of drilling horizontal shale wells with large volume hydraulic fracturing. However, the technology is readily available from drilling subcontractors which the Company employs.

Competition

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

Lease Expiration

Norse Energy's leased acreage has fixed expiration dates. The Company exercised the right of *Force Majeure* provided in its lease agreements, which should extend the duration of the leases affected by the time required to finalize the regulations in the state of New York. In the event the *Force Majeure* provision in the leases is successfully challenged, the original lease expiration dates will prevail.

Government Regulation

Norse Energy owns and leases mineral rights in New York State. At present the New York State government does not issue permits allowing large volume hydraulic fracturing of shale gas wells. The Company's Herkimer well operation is not affected by this, but the estimated larger reserves in the Marcellus and Utica shale formations cannot be accessed economically until this ban is lifted. The New York Department of Environmental Conservation released its Supplemental Generic Environmental Impact Statement (SGEIS) in September 2011. There is no certainty that the SGEIS will be finalized in a timely manner.

The Company received Notices of Violation ("NOVs") from the New York State Department of Environmental Conservation ("DEC") in reference to required air quality emission permits associated with its Bradley Brook and Diehl compressor stations, one at each location. The NOVs were issued because neither the Company nor the DEC was able to locate original permits dating from 2008. It is likely that the Company will be fined.

Funding and Liquidity

The Company has been actively pursuing the sales of assets to reduce debt. The timing and the success of asset sales may or may not be sufficient to enable the Company to eliminate or to reduce its debt burden to manageable levels. If the asset sales are unsuccessful or not timely, the Company may seek refinancing in the capital markets which could include both debt and equity alternatives.

Currency Risk and Interest

The Company's functional currency is USD. All of the Company's operations and most of its cash flows are in USD. The Company has a small amount of NOK denominated debt and incurs a relatively small amount of its operating expenses in NOK for its corporate office in Norway.

Currency risk for Norse Energy is primarily the result of currency fluctuations between US Dollar and Norwegian Kroner. There are no currency hedging instruments in place as of 30 September 2011.

Norse Energy is exposed to interest rate risk since the group borrows funds at both fixed and floating rates. There are no interest swap contracts in place as of 30 June 2011.



OUTLOOK

Norse Energy is committed to the highest standards for the protection of the Environment, Health and Safety (EHS) in all areas of its operations.

The Company's board of directors, management and employees believe in the value potential of its New York State assets. The Company expects the SGEIS regulations to be in place in early 2012 and profitable shale well drilling with high volume hydraulic fracturing to begin around mid-year 2012 provided that financing is available. Continued progress on the SGEIS has heightened interest in the Company's assets.

In spite of this improving business climate, the Company continues to face serious short term challenges related to maintaining adequate liquidity and complying with bank and bond covenant restrictions. The Company took action to reduce operating costs in the third quarter and several fundraising initiatives, including asset sales and capital markets opportunities, are being evaluated.

Recent drilling of the Utica Shale in Ohio and Pennsylvania is beginning to prove this play throughout the Appalachian basin. The Utica formation is at attractive depths for development across Norse Energy's entire acreage position.

The Company is committed to value generation for all of its stakeholders and is appreciative of their ongoing support.



INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Comprehensive Income

		For the three months ended,		For the nine months ended,	
		30 September 2011	30 September 2010 ⁽¹⁾	30 September 2011	30 September 2010 ⁽¹⁾
(in USD thousands, except earnings per share)	Note	(unaudited)	(unaudited)	(unaudited)	(unaudited)
REVENUES AND OTHER INCOME					
Oil and gas revenue		2,151	3,075	6,809	10,127
Fair value adjustments and other income		2,030	1,161	1,475	1,746
Total revenues and other income		4,181	4,236	8,284	11,873
OPERATING EXPENSES					
Production expenses		1,062	1,164	3,444	2,188
Exploration and dry-hole expenses	4	831	1,738	2,689	5,006
General and administrative expenses		4,378	5,485	12,489	15,113
EBITDA		(2,090)	(4,151)	(10,338)	(10,434)
Depreciation	5	1,804	2,792	5,452	8,688
Impairment		6,800	15,507	10,768	15,507
Total operating expenses		14,875	26,686	34,842	46,502
EBIT - Net operating loss		(10,694)	(22,450)	(26,558)	(34,629)
FINANCIAL ITEMS					
Net interest expense		(3,623)	(3,838)	(11,273)	(10,207)
Net foreign exchange gain (loss)		282	(1,946)	(77)	384
Gain on warrants		2,791	(352)	8,327	4,248
Other financial expenses		1,364	(1,311)	(481)	(10,410)
Net financial items		814	(7,447)	(3,504)	(15,985)
Loss before tax		(9,880)	(29,897)	(30,062)	(50,614)
Income tax benefit (expense)		-	4,573	(4,973)	9,913
Net loss from continuing operations		(9,880)	(25,324)	(35,035)	(40,701)
Net income (loss) from discontinued operations, net of tax	3	(25)	179	(5,034)	23,554
Net loss		(9,905)	(25,145)	(40,069)	(17,147)
Exchange differences arising from translation of foreign operations		-	-	-	(3,377)
Reclassification adjustments relating to discontinued foreign operations		-	-	-	(13,302)
Other comprehensive loss (net of tax)		-	-	-	(16,679)
Total comprehensive loss		(9,905)	(25,145)	(40,069)	(33,826)
Net loss attributable to:					
Shareholders of the parent company		(9,905)	(25,145)	(40,069)	(15,774)
Non-controlling interests		-	-	-	(1,373)
Total		(9,905)	(25,145)	(40,069)	(17,147)
Total comprehensive loss attributable to:					
Shareholders of the parents company		(9,905)	(25,145)	(40,069)	(31,440)
Non-controlling interests		-	-	-	(2,386)
Total		(9,905)	(25,145)	(40,069)	(33,826)
Basic and diluted earnings per share from continuing operations		(0.01)	(0.05)	(0.06)	(0.09)
Basic and diluted earnings per share from discontinued operations ⁽²⁾		(0.00)	0.00	(0.01)	0.06

(1) For comparative purposes, the financial results of Norse Energy Supply, Inc., Norse Pipeline, LLC, Mid-American Natural Resources, and Norse Energy do Brasil S.A. (only applicable to 2010) are shown as discontinued operations.

(2) Calculated using net income less net income attributable to non-controlling interests (only applicable to 2010).

Consolidated Statement of Financial Position

		At 30 September 2011 (unaudited)	At 31 December 2010
(in USD thousands)	Note		
ASSETS			
<i>Non-current assets</i>			
<i>Intangible assets</i>			
License interests and exploration assets	5	21,667	23,092
Goodwill and other intangible assets	5	-	5,678
Total intangible assets		21,667	28,770
<i>Properties and field investments</i>			
Field investments and equipment	5	67,210	85,212
Other fixed assets	5	1,384	2,621
Total properties and field investments		68,594	87,833
Other non-current assets		2,406	5,021
Total non-current assets		92,667	121,624
<i>Current assets</i>			
Accounts receivable and other short-term assets		7,431	16,665
Cash and cash equivalents		12,354	24,580
Total current assets		19,785	41,245
TOTAL ASSETS		112,452	162,869
EQUITY AND LIABILITIES			
<i>Equity</i>			
Share capital		44,412	30,466
Share premium		70,295	55,771
Treasury shares		(14)	(14)
Other paid in capital		42,512	42,512
Total paid-in equity		157,205	128,735
Other equity		(143,555)	(103,608)
Total equity		13,650	25,127
<i>Non-current liabilities</i>			
Long-term interest-bearing debt	6	38,910	80,757
Asset retirement obligations		3,002	3,084
Other non-current liabilities		949	7,312
Total non-current liabilities		42,861	91,153
<i>Current liabilities</i>			
Short-term interest-bearing debt	6	45,833	18,531
Accounts payable		10,108	24,216
Other current liabilities		-	3,842
Total current liabilities		55,941	46,589
TOTAL EQUITY AND LIABILITIES		112,452	162,869

Consolidated Statement of Changes in Equity

(unaudited, in USD thousands)	Share capital	Share premium reserve	Treasury shares	Other paid in capital	Retained earnings	Other Equity	Attributable to parent shareholder	Non-controlling interests	Total
At 1 January 2011	30,466	55,771	(14)	42,512	(107,890)	3,866	24,711	-	24,711
Net income (loss) for the year	-	-	-	-	(40,069)	-	(40,069)	-	(40,069)
Total comprehensive income (loss) for the year	-	-	-	-	(40,069)	-	(40,069)	-	(40,069)
Share issue	13,946	14,524	-	-	-	-	28,470	-	28,470
Employee share options	-	-	-	-	-	538	538	-	538
At 30 September 2011	44,412	70,295	(14)	42,512	(147,959)	4,404	13,650	-	13,650

(unaudited, in USD thousands)	Share capital	Share premium reserve	Treasury shares	Other paid in capital	Retained earnings	Other Equity	Attributable to parent shareholder	Non-controlling interests	Total
At 1 January 2010	49,007	17,627	(14)	76,983	(74,620)	19,970	88,953	30,084	119,037
Net income (loss) for the year	-	-	-	-	(15,774)	-	(15,774)	(1,373)	(17,147)
Other comprehensive income (loss) for the year:									
Reclassification adjustment relating to discontinued foreign						(13,302)	(13,302)		(13,302)
Exchange differences arising from translation of foreign operations						(3,377)	(2,364)	(1,013)	(3,377)
Total comprehensive income (loss) for the year	-	-	-	-	(15,774)	(16,679)	(31,440)	(2,386)	(33,826)
Net change from demerger of Norse Energy do Brasil S.A.	(9,802)	(17,627)	-	(58,974)	-	-	(86,403)	(27,698)	(114,101)
Share issue	15,764	55,771	-	-	-	-	71,535	-	71,535
Share capital reduction ⁽¹⁾	(24,503)	-	-	24,503	-	-	-	-	-
Employee share options	-	-	-	-	-	(242)	(242)	-	(242)
At 30 September 2010	30,466	55,771	(14)	42,512	(90,394)	3,049	42,403	-	42,403

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

Consolidated Statement of Cash Flows

		For the nine months ended 30 September	
		2011	2010
(in USD thousands)	Note	(unaudited)	(unaudited)
OPERATING ACTIVITIES			
Net loss		(40,069)	(17,147)
Adjustments to reconcile net loss to cash flows used in operating activities:			
(Income) loss from discontinued operations	3	5,034	(23,554)
Depreciation	5	5,452	8,688
Impairment of properties and field investments		10,768	15,507
Loss on short term investment		-	10,389
Market adjustment, warrants, options and shares		(8,859)	(6,931)
(Gain) loss on disposal of assets		719	5,667
Loss on sale of mid-stream assets	2	5,197	-
Interest income		(155)	(182)
Interest expense		11,427	10,388
Change in deferred taxes		4,973	(9,913)
Movements in working capital:			
Change in accounts receivable and other short-term assets		(1,998)	148
Change in accounts payable		(9,035)	(7,893)
Other adjustments		(2,080)	(6,792)
Cash flows used in operating activities		(18,626)	(21,624)
INVESTING ACTIVITIES			
Proceeds from sale of assets		1,465	37
Proceeds from sale of mid-stream assets		19,603	-
Purchase of short-term investment		-	(18,008)
Investment in fixed assets		(16,930)	(15,123)
Cash flows used in investing activities		4,138	(33,094)
FINANCING ACTIVITIES			
Proceeds from issuance of shares, net		28,469	71,535
Proceeds from sale of non-controlling interest		-	-
Proceeds from issuance of short-term debt		66	-
Proceeds from issuance of long-term debt		-	-
Net interest received (paid)		(6,870)	(7,960)
Repayment of debt		(14,825)	(20,673)
Cash flows used in financing activities		6,840	42,902
Effects of foreign currency on cash balances		(52)	-
Net cash provided by (used in) discontinued operations	3	(4,526)	(12,433)
Change in cash and cash equivalents during the period		(12,226)	(24,249)
Cash and cash equivalents at the beginning of the period		24,580	37,303
Cash and cash equivalents and the end of the period		12,354	13,054



NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization and basis of preparation

General information and organization

Norse Energy Corporation ASA is a public limited liability company incorporated and domiciled in Norway. The address of the main office is Bryggegt. 7, 0250 Oslo, Norway. The principal activity of Norse Energy Corporation ASA and its subsidiaries is the acquisition, exploration, and development of oil and natural gas properties in the United States.

The Company's shares are traded on the Oslo Stock Exchange under the ticker symbol NEC and in the United States of America on the OTCQX under the ticker symbol NSEFY.

The interim financial statements for the third quarter of 2011 were authorized for issue by the Board of Directors on 21 November 2011.

Basis of preparation

The consolidated financial statements for 2010 were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and the Norwegian accounting act. These interim financial statements are prepared in accordance with International Accounting Standard 34 Interim Financial reporting as issued by the International Accounting Standards Board (IASB). The accounting policies and methods of computation followed in the interim financial statements are the same as compared with the most recent annual financial statements. The interim financial statements have not been audited or subject to a review. The interim financial statements do not include all of the information and footnotes required by IFRS for a complete set of financial statements and should be read in conjunction with the consolidated annual financial statements for 2010. The annual financial statements for 2010 are available at www.norseenergy.com.

On 7 June 2010, the Company publicly announced that it had completed the demerger of the Brazilian E&P related assets. As a consequence of this demerger, the Brazilian E&P operations are presented on a separate line of the Q3 2010 income statement and Q3 2010 cash flow statement as discontinued operations. The Statement of Comprehensive Income and the Statement of Cash Flows have been restated with regard to historical figures.

On 31 May 2011, the Company sold certain of its midstream assets to Appalachian Transportation and Marketing, LLC. As a consequence of the sale, the Energy Marketing and Gathering & Transmission operations are presented on a separate line of the Statement of Comprehensive Income and Statement of Cash Flows as discontinued operations. The Statement of Comprehensive Income and the Statement of Cash Flows have been restated with regard to historical figures.

Note 2. Sale of mid-stream assets

On 31 May 2011, Norse Energy through its subsidiary, Norse Energy Holdings, Inc., sold certain of its midstream assets to Appalachian Transportation and Marketing LLC (Appalachian) for a total consideration of USD 20.7 million. The midstream assets consist of the Company's Norse Pipeline, LLC, Nornew Energy Supply, Inc., and Mid American Natural Resources, LLC.

A loss of USD 5.2 million was recognized on the sale. USD 1.7 million was recognized in the first quarter of 2011, USD 3.5 million was recognized in the second quarter of 2011, and USD 0.025 million was recognized in the third quarter of 2011 due to changes in assets and liabilities from 31 March and the results from operations for the second and third quarters. This loss is included in the net loss from discontinued operations for 2011 (See note 3).

Loss calculation

(in USD thousands)	Gathering & Transmission	Energy Marketing	Total
Purchase price	14,000	6,715	20,715
Commissions, taxes, and other			(1,040)
Equity	(766)	(14,568)	(15,334)
Intercompany debt	(8,819)	3,094	(5,725)
Third party interest bearing debt	(3,812)	-	(3,812)
Total equity, intercompany debt, & third party interest bearing debt	(13,397)	(11,474)	(24,871)
Loss on sale			(5,197)

Note 3. Discontinued operations

As a result of the demerger of Norse Energy do Brasil S.A on 7 June 2010 and the sale of the mid-stream assets on 31 May 2011, all of the Company's operations in Brazil and the operations of Norse Pipeline, LLC, Norse Energy Supply, Inc., and Mid American Natural Resources, LLC are now considered discontinued operations in accordance with IAS 5 and IAS 21. The tables presented below show the results of Norse Pipeline, LLC, Norse Energy Supply, Inc., Mid-American Natural Resources, LLC, and Norse Energy do Brasil S.A. for all comparative periods presented in this report.

Statement of Comprehensive Income

(in USD thousands)	For the three months ended,		For the nine months ended,	
	30 September 2011	30 September 2010 ⁽¹⁾	30 September 2011	30 September 2010 ⁽¹⁾
Revenues	-	20,135	28,410	88,625
Expenses	25	19,569	27,680	78,183
EBITDA	(25)	566	730	10,442
Depreciation	-	273	494	4,149
Impairment	-	-	-	-
EBIT	(25)	293	236	6,293
Financial income (expense)	-	(50)	(73)	(13,418)
Net foreign exchange loss	-	-	-	8,533
Net income (loss) before tax	(25)	243	163	1,408
Income tax benefit	-	(64)	-	697
Net income (loss)	(25)	179	163	2,105
Loss on sale	-	-	(5,197)	-
Reclassification adjustments relating to discontinued foreign operations	-	-	-	13,302
Gain on demerger	-	-	-	8,147
Total net income (loss) from discontinued operations	(25)	179	(5,034)	23,554

⁽¹⁾ Includes Brazilian operations.

Statement of Cash Flows

(in USD thousands)	For the nine months ended,	
	30 September 2011	30 September 2010 ⁽¹⁾
Net cash provided by (used in) operating activities	(4,238)	(8,460)
Net cash provided by (used in) investing activities	(41)	433
Net cash provided by (used in) financing activities	(247)	(4,003)
Effects of foreign currency on cash balances	-	(403)
Net cash provided by (used in) discontinued operations	(4,526)	(12,433)

⁽¹⁾ Includes Brazilian operations.

Note 4. Exploration costs

(in USD thousands)	For the three months ended,		For the nine months ended,	
	30 September 2011	30 September 2010 ⁽¹⁾	30 September 2011	30 September 2010 ⁽¹⁾
Seismic acquisitions, G&G costs, and general exploration costs	800	1,704	2,414	4,888
Dry-hole costs	-	-	167	-
Other exploration costs expensed	31	35	107	118
Total exploration costs from continuing operations	831	1,739	2,689	5,006
Total exploration costs from discontinued operations	-	-	-	-
Exploration expenses capitalized during the period	1	859	76	3,261
Total exploration investments during the period	832	2,598	2,764	8,267

Note 5. Property, plant, and equipment and intangible assets

(in USD thousands)	Licenses and exploration assets	Production assets and equipment	Other fixed assets	Goodwill and other intangibles
Acquisition cost at 1 January 2011	25,534	138,256	5,983	5,879
Transfers between asset groups	(1,566)	(479)	-	-
Investments	1,704	15,164	417	-
Disposals	(1,563)	(146)	(982)	-
Sold to Appalachian Transportation and Marketing	-	(26,581)	(958)	(5,879)
Acquisition cost at 30 September 2011	24,109	126,214	4,460	-
Accumulated depreciation/impairment at 1 January 2011	(2,442)	(53,043)	(3,362)	(202)
Depreciation/impairment from continuing operations	-	(15,758)	(462)	-
Depreciation/impairment from discontinued operations	-	(417)	(67)	(10)
Disposals	-	-	129	-
Sold to Appalachian Transportation and Marketing	-	10,216	686	212
Accumulated depreciation/impairment at 30 September 2011	(2,442)	(59,002)	(3,076)	-
Net carrying value at September 2011	21,667	67,211	1,384	-

Impairment

In accordance with IAS 36, the Company assesses at the end of each reporting period whether there are any indications that any assets may be impaired. If such indications exist, the Company must estimate the recoverable amount of the asset. The recoverable amount is the higher of fair value less costs to sell and estimated value in use. Calculating the recoverable amount for the Company's production assets is very complex as there are many influencing factors and uncertainties surrounding those factors.

The New York State regulation pending the Supplemental Generic Environmental Impact Study ruling surrounding high volume hydraulic fracturing is a major uncertainty. Determining the value in use of the Company's production assets is difficult to determine as the value is sensitive to small changes to input variables in the calculation. Also in a distressed sale situation the Company may not be able to achieve a price equal to book value.

The impairment recorded this quarter is based on estimated value in use. When estimating the net present value, the Company used a discount rate of 10.5% for the period ending 30 September 2011. This is a pre-tax discount rate and is calculated on a pre-tax weighted average cost of capital (WACC). The net book value for the Company's production assets was USD 47,025 and the discounted cash flow balance was USD 40,230. As a result, there was an impairment loss of USD 6,800 recognized. The impairment was caused predominantly by declining market prices. The valuation is based upon the five year future NYMEX strip pricing plus the Appalachian premium.

The impairment calculation also includes the value of proved undeveloped reserves which will require future investment of capital to develop, the funding of which may be dependent upon asset sales or capital markets transactions.

The tables below show the change in the discounted cash flows based on different sensitivities:

Sensitivity to change in capital expenditure per well:

(in USD thousands)	+100K per well	- 100K per well
Change in discounted cash flows	(6,000)	6,000

Sensitivity to change in future price curve:

(in USD thousands)	+ \$1.00	+ \$0.50	- \$0.50	- \$1.00
Change in discounted cash flows	16,426	8,204	(8,179)	(16,321)

Sensitivity to WACC:

(in USD thousands)	+ 1.00%	+ 0.50%	- 0.50%	- 1.00%
Change in discounted cash flows	(3,104)	(1,587)	1,660	3,398

Note 6. Interest-bearing debt

Below is a summary of the company's interest bearing debt as of 30 September 2011.

(in USD thousands)	Interim Rate	Effective Date	Final Rate	Effective Date	Maturity Date	Tranche 1	Tranche 2	Within 1 year	After 1 year	Total
NEC02 - USD 75 million bond loan	8.50% Fixed	7/1/2010	13.50% Fixed	7/15/2011	7/14/2012	7/14/2013		30,210	20,935	51,145
NEC03 - USD 8.8 million bond loan	11.50% Fixed	7/1/2010	13.50% Fixed	7/7/2010	7/6/2011	7/6/2012		3,623	-	3,623
NEC04 - NOK 27 callable bond loan	N/A	N/A	13.50% Fixed	7/1/2010	9/25/2013	9/25/2014		-	3,717	3,717
NEC05 - USD 17.8 million bond loan	12.707% Fixed	7/1/2010	13.50% Fixed	9/26/2012	9/25/2013	9/25/2014		-	14,258	14,258
Revolving credit agreement			5.375%	N/A	1/1/2011			12,000	-	12,000
Total								45,833	38,910	84,743

Below are the contractual maturities of the Company's bond debt including estimated interest payments.

(in USD thousands)	Total	0-1 months	1-3 months	3-12 months	1-3 years	3-5 years	> 5 years
NEC02 - USD 75 million bond loan	65,033	1,843		37,403	25,788		
NEC03 - USD 8.8 million bond loan	4,245	126		4,119			
NEC04 - NOK 27 callable bond loan	5,255		133	265	2,826	2,031	
NEC05 - USD 17.8 million bond loan	20,092		481	961	10,830	7,820	
Total	94,625	1,969	613	42,748	39,444	9,851	-

Bond Agreement Amendment

On 4 July 2011 the Company amended its bond agreements to change the issuer from Norse Energy Holdings, Inc. (NEHI) to Norse Energy Corporation, ASA. The change in issuer eliminated the US requirement for withholding tax on interest payments made by a US borrower to investors who are not exempt from US withholding tax.

On 15 August the Company announced that it had requested a waiver of these covenants from its key bondholders. The key bondholders made a counter proposal to recapitalize the Company with a combination of securities that may include new equity, a conversion of bond debt to equity and, potentially, a lesser amount of new debt with a more accommodating covenant package. The package of new money and securities has not been decided or agreed upon. A conversion of bondholder debt to equity could result in substantial dilution to existing shareholders.

Bond covenants

The bond covenants for NEC03, NEC04, and NEC05 are calculated off the balance sheet of the consolidated US parent NEHI under the US GAAP accounting guidance. At 30 September 2011 the company is in compliance with these covenants. The main covenants are as follows:

- 1) NEHI must maintain an equity to capital employed ratio of at least 30% at all times after 31 March 2011. Capital employed is defined as equity plus the aggregate book value of gross interest bearing debt, including any zero coupon loans and other financial instruments with the commercial effect of borrowing (i.e. guarantees and leasing commitments).
- 2) NEHI must maintain a minimum equity of USD 36 million at all times after 31 March 2011.
- 3) There is a USD 55 million maximum on the Reserve Based Lending (See Revolving credit agreement below) unless backed by new equity or repayment of existing bond debt.

4) Fifty percent of the net proceeds received, exceeding USD 10 million; arising from the sale of gas reservoirs/fields in any U.S. Group entities holding such interest are to be offered to redeem the Norse Energy loans pro rata at par plus accrued interest.

Revolving credit agreement

The Company has a revolving credit agreement with a bank collateralized by certain assets with a borrowing base of USD 15 million at 30 September 2011. 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 facility is fully drawn at 30 September 2011 with USD 12 million borrowed under the revolving credit facility and USD 3.0 million outstanding under the letter of credit facility. Beginning 31 October the borrowing base is to be reduced on a monthly basis by USD 0.5 million and shall remain in effect until the next redetermination date. The credit agreement carries a minimum interest rate of 5.0% plus 0.375% applicable margin.

In addition to other nonfinancial covenants, the credit agreement requires the business segment to maintain certain financial covenants. As of 30 September 2011, this business segment failed to comply with certain covenant requirements under the credit agreement. In the past, the Company's bank has granted waivers for the non-compliance of the general and administrative expenses covenant. The Company expects that the bank will continue to do so. Due to the covenant issues and the nature of the revolving credit agreement, it is presented as a current liability.

Note 7. Contingent liabilities

Air Permits

On 14 June 2011, the Company reported that it received Notices of Violation (NOVs) from the New York State Department of Environmental Conservation ("DEC") in reference to required air quality emission permits associated with its Bradley Brook and Diehl compressor stations, one at each location. The NOVs were issued because neither the Company nor the DEC was able to locate original permits dating from 2008. The Company may be fined if it is determined the permits were not filed. The amount of the potential fine is not estimable at this time and therefore, no liability has been accrued at 30 September 2011.

Note 8. Going concern

The third quarter 2011 financial statements have been prepared pursuant to the going concern assumption, in accordance with section 3-3 of the Norwegian Accounting Act. This assumption was made based on the financial position of the Company at the balance sheet date of this report.

The Company faces challenges related to liquidity and bank and bond covenant compliance as of 30 September 2011. The Company's cash balance was USD 12.3 million on 30 September 2011. The Company's current cash position is sufficient to finance operations through the fourth quarter 2011. Due to New York State's moratorium on the use of high volume hydraulic fracturing, until recently, the Company had been exploring and drilling the Herkimer sandstone formation exclusively. During 2011, the Company determined that cash flow generated from operations from the producing wells in this formation is not sufficient for the Company to cover its operating expenses and to meet its debt service obligations after 2011. Therefore, the Company is now focusing on the future exploration and development of its prospective Marcellus and Utica acreage.

The Company needs to complete an asset sale and/or equity capital financing, possibly combined with a debt restructuring, to be able to continue to fund its operations in 2012.

NEC is borrower under the Loan Agreements with ISIN NO 001 031750.6 ("NEC02"), ISIN NO 001 0481542 ("NEC03"), ISIN NO 001 046035.5 ("NEC04") and ISIN NO 001 047907.4 ("NEC05") with Norsk Tillitsmann ASA as Loan Trustee, hereinafter referred to as the "Bond Loans". Norse Energy Holdings Inc. ("NEHI"), a 100% owned subsidiary of NEC, is the guarantor for NEC's obligations under the Loan Agreements. The Loan Agreements for NEC03, NEC04 and NEC05 bonds include covenants, based on NEHI's US GAAP financial statements, whereby NEHI is to maintain equity of minimum USD 36 million and "Equity to Capital Employed Ratio" of at least 30%.

It is possible the Company will not be in compliance with the equity covenants in the future unless it carries out an asset sale and/or equity capital financing. NEC has previously announced its intention to pursue asset sales to address its liquidity and covenant issues and has engaged US financial advisors to assist in the process. Because asset sales at expected market pricing should provide the best and least dilutive alternative for the Company's shareholders, it remains the Company's main priority in order to improve the balance sheet and repair covenants.

Due to the uncertainty of an asset sale and/or equity capital financing, the Company has approached the Loan Trustee and key bondholders on an informal basis to seek a 180 day waiver from its bond covenants to allow time to continue to pursue asset sales. The key bondholders have made a counter proposal to recapitalize the Company with a combination of securities that may include new equity, a conversion of bond debt to equity and, potentially, a lesser amount of new debt with a more accommodating covenant package. The package of new money and securities has not been decided or agreed.

Changes to the bond loan agreements will require the consent of 2/3 of the bondholders represented in a bondholder's meeting. Any conversion of debt to equity or other placement of shares in NEC will require 2/3 majority in an extraordinary general meeting of NEC. Accordingly, any decision by the Board of Directors to seek any form of new equity capital will require an extraordinary general meeting in NEC. The market will be duly informed of any development on the above matter.

On 8 July 2011, the New York State Department of Environmental Conservation (DEC) issued the preliminary draft Supplemental Generic Environmental Impact Statement (SGEIS). A comment period that commenced in September is scheduled to conclude on 12 December. No permits may be issued until the public comments are reviewed and considered and the final Supplemental Generic Environmental Impact Statement is released. The timing of the final SGEIS is uncertain.

A positive outcome of the regulatory process will enable Norse to explore and drill the Marcellus and Utica formations in New York State on its own or with partners in industry joint ventures, in which partners may provide operating expertise and/or capital contributions to the development of defined acreage. The issuance of final regulations is also likely to increase the interest of other natural gas production companies and/or midstream natural gas transmission companies in the potential acquisition of certain of the company's assets if they were to be offered for sale.

As described above the Company's continued operations is dependent on the successful outcome of the financial challenges facing the Company.



OTHER INFORMATION

Financial calendar

22 November	Q3 2011 Shareholder Report and Investor Presentation
29 February	Q4 2011 Shareholder Report and Investor Presentation

Glossary

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, energy needed to heat one pound of water by one degree Fahrenheit
Dth	Decatherm, the approximate energy equivalent of burning 1000 cubic feet of natural gas
EBITDA	Earnings (Net Income) before Interest, Taxes, Depreciation and Amortization and viewed by many financial analysts as a short form estimate of cash from operations, although it is not a measurement recognized in the accounting literature
EBITDAX	An Oil and Gas industry term which adds back certain Exploration costs, such as the Company's acquisition of 3D Seismic, to EBITDA. Exploration costs, such as 3D Seismic, are not operating expense in the sense that they vary with operational activities. They are more like capital spending investments in that they are large expenditures which provide value to development activities across a number of years and are not likely to be recurring. The accounting literature recognizes Exploration costs as Operating Expense which reduces EBITDA for this type of non-recurring expense.
HBP	Hold by Production means holding the future right to develop all of the acreage in all leases in the drilling unit in all geological formations for life of the producing well.
IP	Initial production
Mcf	Thousand cubic feet
Mcf/d	Thousand cubic feet per day
MMcf	Million cubic feet
MMBOE	Million barrels of oil equivalents
MMBtu	Million British thermal units
MMm³	Million cubic meters
Spud	The initial contact of a drill bit with the ground surface as the drilling of a well begins
Tcf	Trillion cubic feet
1P	Proved Reserves are those quantities of reserves, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations.
2P	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.
3P	Possible Reserves are those additional reserves which analysis of geoscience and engineering data suggest are less likely to be recoverable than Probable Reserves.
2C	Contingent Resources – those quantities of resources estimated as of a given date to be potentially recoverable from known accumulations by application of development projects but which are not considered to be commercially recoverable due to one or more contingencies

Disclaimer

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