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## ANNUAL REPORT 2011

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*Cover Picture: Utica Shale*

## Financial Reporting Calendar 2012

- 29 May Annual General Meeting of the Shareholders
- 29 August Second Quarter 2012 Results
- 29 November Third Quarter 2012 Results

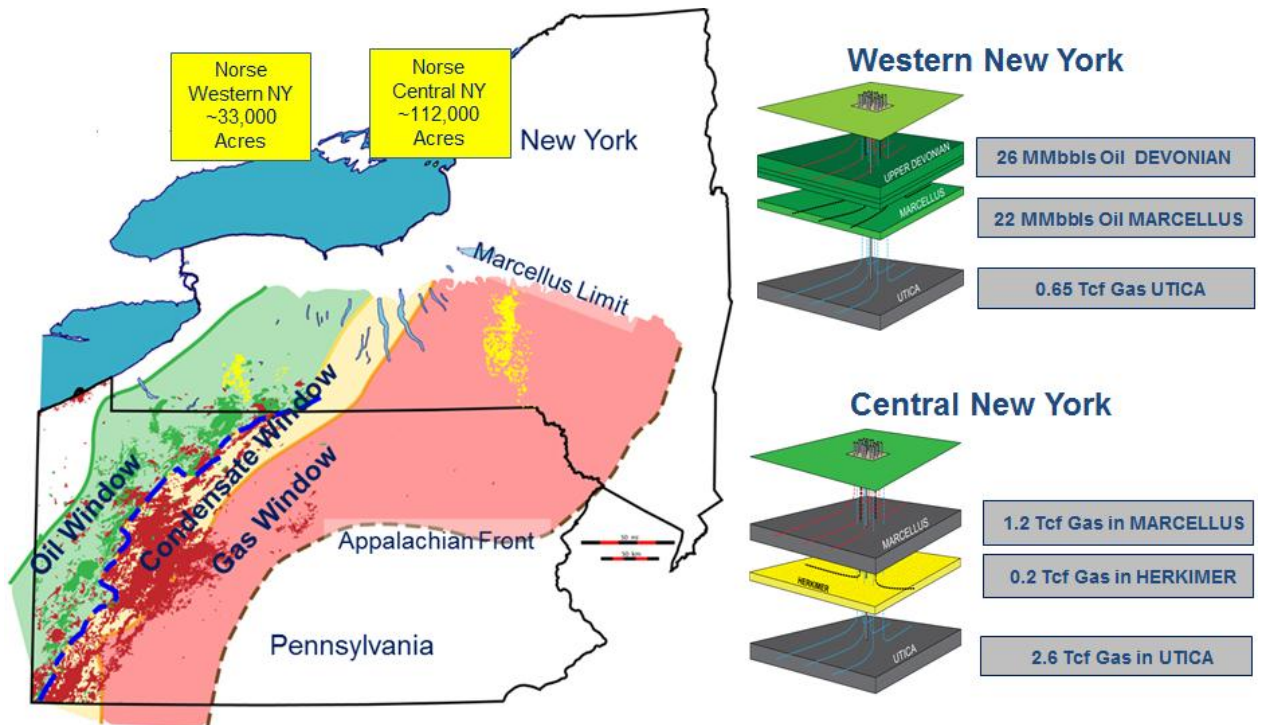


# COMPANY OVERVIEW

Norse Energy is an oil and gas exploration, development, and production company. As of 31 December 2011, the Company owned or leased ~145,000 net acres in New York State of which ~33,000 lie in the liquids rich shale fairways of Western New York, and the remaining ~112,000 net acres lie in the Marcellus and Utica natural gas fairways in Central New York. Norse Energy Corp is listed on the Oslo Stock Exchange under the ticker symbol "NEC" and on the OTCQX under the symbol "NSEEY".

Norse Energy had total contingent resources of ~880 MMBOE (4.9 TCFGE) at the end of 2011, subsequent to which the Company entered into a definitive agreement to sell certain producing assets and associated acreage. Upon closing of this transaction in May 2012, the Company's estimated 2C Contingent resources were ~777 MMBOE (4.4 TCFGE).

## Year End Contingent Resources



## + Key Figures

	2011*	2010*
Gas Production Volume net to Norse (Mcf)	1,789,418	2,116,980
Realized price (USD/Mcf)	\$5.01	\$5.93
<b>USD Amounts in 000s</b>		
Total Revenues	22,199	13,541
Operating profit/(loss)	(63,127)	(41,078)
Net profit/(loss)	(80,204)	(34,643)
Total Assets	72,458	162,869
Total Equity <sup>(1)</sup>	(26,456)	25,127
Total Liabilities	98,914	137,742
Employees	34	72

*As of 31 December 2011, the Company had negative shareholders' equity. Subsequently, debt to equity conversions increased shareholders' equity by approximately USD 22 million.*

*\*Production numbers and realized prices are non-audited numbers.*



# 2011 Highlights

*(All references to USD in this report are in USD 000s unless the text indicates otherwise)*

## Subsequent Events

- ✿ On 29 April 2012 the Company announced that the unaffiliated, non-disclosed Buyer of acreage and overriding royalty interests finished its due diligence review with ~USD 70,000 additional funds plus certain reimbursements being released from escrow. Total cash consideration for the transaction is ~USD 21.7 million. In addition, sales or pending sales totaling USD ~300,000, which were subject to third party first right of refusal, bring the total transaction value to USD ~22 million. After adjusting for final buyer due diligence decisions, Norse has sold leases and fee interests in Central New York totaling 18,143 acres and overriding royalty interests of (i) 2.5% on 20,032 acres that are held by production ("HBP"); (ii) 3.75% on 84,144 non-HBP leased and fee acres located in Central New York; and (iii) 6.25% on 29,039 acres located in Western New York.
- ✿ In May 2012 the Company completed the sale of its operated production, ~23,000 held by production ("HBP") acres (in which Norse retains a 37.5% working interest in the deep Utica formation), gathering system, and pipeline rights of way in Central New York. The buyer is Emkey Resources, LLC which is partially owned by Øiving Risberg, a current member of the board of directors and former CEO of Norse Energy. Emkey which collectively includes Emkey Resources and its affiliates, is committed to construct a pipeline capable of transporting a minimum of 90,000 Mcf/day, once Norse so nominates for firm transportation. The buyer also received a three year warrant to purchase 81 million shares at a strike price of NOK 0.40 at the closing date. Total cash consideration to Norse is USD 37 million subject to closing adjustments. The effective date of the transaction is 1 January 2012. On 16 April 2012 the Shareholders voted in an Extraordinary General Meeting to approve these transactions as proposed.
- ✿ On 28 February 2012, the Company announced it had reached a refinancing agreement with its bondholders constituting a majority in each of the NEC02, NEC04 and NEC05 bond issues. The Company will issue new convertible bonds with principal amount minimum USD 21 million and up to maximum USD 40 million, where the minimum amount of USD 21 million has been settled by conversion of a corresponding principal amount of NEC02/04/05 bonds (pro rata). The convertible debt has a strike of NOK 0.37 per share (subject to adjustment clauses), carries a 5% coupon, is 3 years in duration, contains a call provision, and is secured by the shares in Norse's wholly owned subsidiary, Norse Energy Holdings Inc. (NEHI).
- ✿ On 23 February 2012 the Company completed the conversion of a total of ~USD 22 million of bond debt to shareholder equity at a significant premium to market price per share.
- ✿ On 21 February 2012, the Company announced increased reserves and resources as certified by Schlumberger Data and Consulting Services.
  - Total 1P Proved Reserves as of 31 December 2011 increased from ~34.4 Bcf. to ~43.4 Bcf. compared to 31 December 2010, an increase of ~26%.
  - Total 2P Reserves as of 31 December 2011 increased from ~41.0 Bcf to ~60.3 Bcf. compared to 31 December 2010, an increase of ~47%.
  - Total 2C Contingent Resources as of 31 December 2011 increased from ~3.9 TCF (~697 MMBOE) to ~4.9 TCFE (~880 MMBOE) compared to 31 December 2010, an increase of ~26%.
  - Western New York 2C Contingent Resources, newly certified, totaling ~0.9 TCFE (~164 MMBOE) comprise of ~0.7 Tcf of gas (~116 MMBOE) and ~48 MMBbls of oil.
  - Central New York 2C Contingent Resources increased from ~3.9 Tcf (~697 MMBOE) to ~4.0 Tcf (~715 MMBOE), an increase of ~3%, inclusive of the 12/31/2011 divestiture

## Fourth Quarter

- ✿ On 31 December 2011 the Company entered into a definitive agreement to sell acreage and overriding royalty interests for cash consideration of USD 26.7 million to undisclosed and unrelated buyers. Upon closing, Norse received USD 21.7 million as the first installment on 3 January 2012. With the exception of certain expense reimbursements, USD 5 million was held in escrow pending completion of confirmatory due diligence. See subsequent events.
- ✿ An Extraordinary General Meeting was held on 22 November 2011, during which the shareholders approved the following resolutions:
  - Replacement of board members Dag Erik Rasmussen (Chairman) and Katherine Støvring with Cecilie Amdahl (Chairman) and former Norse CEO Øivind Risberg, respectively
  - Authorizations to the board to:
    - reduce share capital through a reduction in par value from NOK 0.36883488 to NOK 0.01 per share
    - increase the Company's share capital by up to 50%
    - issue convertible bonds
    - issue warrants in connection with share issues and/or convertible loans; and
    - amend the Articles of Association to enable the board to issue a reverse split of fifty shares to one share.

## Third Quarter

- ✿ 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).
- ✿ 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.
- ✿ In July, the Company decided to temporarily suspend Herkimer drilling to preserve cash and focus resources on potentially more profitable shale development, and to identify lower cost Herkimer drilling options.
- ✿ 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 on the early extinguishment of debt as a result of the transactions.

## Second Quarter

- ✿ The sale of the Company's midstream assets to Appalachian Transportation and Marketing LLC for a total consideration of USD 20.7 million was completed on 31 May 2011.
- ✿ In the second quarter three new Herkimer wells were completed bringing the total number of wells drilled on 3D seismic to eight. These eight wells delivered an average thirty day initial production rate (IP-30) of ~1,000 Mcf/d.
- ✿ An Extraordinary General Meeting of Shareholders approved the March Private Placement on 15 April. A Prospectus for the shares issued in the Private Placement was approved 19 May. The subsequent repair offering directed to investors not participating in the Private Placement was cancelled on 27 May.

## First Quarter

- ✿ The first five Herkimer wells drilled on 3D seismic delivered an average thirty day initial production rate (IP-30) exceeding 1,300 Mcf/d. The Company resumed drilling in May following a seasonal suspension for spring thaw.
- ✿ The Company successfully completed a Private Placement of USD 30 million of equity on 25 March.
- ✿ As a direct result of the New York State Governor's Executive Order #41 prohibiting the New York Department of Environmental Conservation ("DEC") from issuing high volume hydraulic fracturing permits to drill shale wells in New York State, the Company in early January gave a notice declaring force majeure to its landowners in order to preserve its acreage position.



# CEO LETTER

Dear Fellow Shareholders,

The year 2011 was extremely challenging for Norse Energy. I am proud of the way our team came together to overcome difficulties and create potentially valuable future business opportunities for all of our stakeholders.

During 2011 and early 2012, I cite the following as key highlights:

- Environment, Health and Safety remain our top strategic priority
- Significant reduction of the Company's debt due to a combination of asset sales, debt repayment and conversion of high coupon bonds into new, more company friendly, convertible instruments
  - from USD 109 million of debt in December 2010 to USD 88 million in December 2011, and subsequently
  - to USD 21 million as of the as of the completion of the refinancing
  - average interest rates will be reduced from ~13% to 5%
- Disposal of non-core assets to concentrate on the Company's core exploration and production business, namely:
  - Sale of the Company's Midstream assets (Norse Pipeline, LLC, Nornew Energy Supply, Inc. and Mid-American Natural Resources, LLC) for USD 20.7 million
  - Sale of leases and fee interests totaling approximately 18,000 acres in Central New York and overriding royalty interests on ~133,000 acres, for ~USD 22 million
  - Selling our operated producing assets, gathering system, and right of way for USD 37 million subject to purchase price adjustments.
- Preservation of the Company's acreage position by providing notice of force majeure to leased acreage landowners allowing the Company to recover time lost before issuance of the Supplemental Generic Environmental Impact Statement (SGEIS)
- Large increases in the Company's certified reserves and resources including a 47% increase in 2P reserves made possible by our Herkimer drilling and thorough evaluation of 3D seismic, and a 26% increase in 2C contingent resources made possible by detailed development planning in Central New York and the addition of newly certified oil and gas resources in our Western New York acreage
- Decreased overhead costs due to approximately thirty percent workforce reduction
- A restructured management team, including the appointment of Chris Steinhauser as Chief Financial Officer, Dennis Holbrook as Chief Legal Officer, and Nazir Ali as EVP Operations and Reservoir Management
- Conclusion of the public comment period for the Supplemental Generic Environmental Impact Statement ("SGEIS") on 11 January 2012 and initiation of the DEC's review of comments received

In spite of these successes and positive developments, we were not able to drill the Herkimer Formation fast enough or with sufficient efficiency to meet all of our interest, principal and expense obligations. Consequently, we took swift action to protect the interests of our bond, equity and other stakeholders. In August 2011, we suspended Herkimer drilling until lower cost drilling options could be identified and repurchased USD 8 million of bonds in an open market transaction. In December 2011, we closed a sale of leased and fee acres plus overriding royalty interests to an unrelated buyer for cash consideration of USD 21.7 million which was received on 3 January 2012. Also in January 2012, we announced the conversion of ~USD 22 million of bond debt to equity and in March 2012, we announced signing of a definitive agreement to sell our producing properties and right-of-way in Central New York to EmKey Resources LLC for USD 37 million. These transactions enabled the Company to reach agreement with

remaining bondholders on a complete debt restructuring that included purchasing ~USD 35 million of debt at par and replacing ~USD 21 million of debt with a new 3 year convertible bond.

The company expects to emerge from this process significantly smaller but much more focused on delivering value to our stakeholders.

Looking ahead, oil shale in Western New York could be a game changer for our company. We are bringing together some of the best minds in the industry to help us evaluate this opportunity on our leases. We are also intensifying efforts to find a highly qualified partner. During 2012, we expect to evaluate this acreage by coring, analyzing and testing liquids prone shale formations including: the Geneseo, Middlesex, Rhinestreet, Marcellus and Utica Formations. Once the final SGEIS is announced, which we expect sometime in the second half of 2012, and associated regulations are in place, we expect to initiate Western New York development using industry leading drilling, fracturing and development technologies. In Central New York, we will seek a partner to help us develop our significant dry gas resources. While waiting for SGEIS approval, we will aggressively defend the force majeure provision of our leases.

Before closing this year's letter, I want to express special thanks to all of the employees who worked for Norse Energy during 2011. Your hard work and commitment during a time of extreme uncertainty is sincerely appreciated.

The past year has been filled with challenge and aggressive response. The company remains committed to bringing value to all of our stakeholders. We will do our best to deliver the significant upside potential that has attracted your interest in Norse Energy.

I sincerely appreciate your ongoing support.

Best regards,

A handwritten signature in dark ink, appearing to read "Mark Dice", with a long, sweeping horizontal line extending to the right.

Mark Dice  
Chief Executive Officer  
22 May 2012



# CORPORATE STRATEGY

The Company's goal is to deliver value to stakeholders in a safe, efficient, and prudent manner. We intend to do this through focusing on:

- Environment, Health and Safety ("EHS")
- Financial Stewardship
- Development of Shale Resources
- People and Technology

## Environment, Health and Safety

Environment, Health and Safety (EHS) performance is the top priority of the Company's management and staff. The Company adheres to all EHS standards and regulations, and maintains strong and effective relationships with regulatory authorities. EHS does not 'live' only in our operations sites and fields; there is a continuous and dedicated effort to maintain high standards of EHS excellence in all of our offices, and across all of our activities.

## Financial Stewardship

The Company believes it is poised to move from a period in its history where financing the firm occupied much of Management's attention, to a new era of financial discipline and profitable growth. The Company is creating an improved financial platform from which to launch the next phase of its business.

Now, the Company can turn its attention to generating value from its large unconventional oil and gas resources in New York State.

## Development of Shale Resources

Recently, the Company's shale position has been significantly enhanced through certification of oil resources in its Western New York acreage. The resultant shale oil and shale gas portfolio mix provides flexibility in the face of changing market conditions. The Company's strategy is to test its stacked oil plays in Western New York, and gas plays in Central New York using the latest horizontal drilling and completion technology. The Company intends to do this either on its own, or with the assistance of a strategic partnership. A successful result in either area could lead to a multi-rig, multi-year development program.

As 99% of the Company's resources are in its shale assets, the Company has been networking with other companies in New York State to help advance the passage of final high-volume high-fracturing regulations.

## People and Technology

The Company will continue to rely on the talent and diversity of highly skilled people. The Company's core skills include deep Appalachian expertise, entrepreneurship, deal making, legal and regulatory understanding, finance, geoscience, engineering and project management. Highly competent people applying leading edge technologies is our recipe for success.



# RESERVES AND CONTINGENT RESOURCES

The Company's Reserves and Contingent Resources are provided in two parts for this report.

1. **Year End 2011:** The results of the "Reserve and Economic Evaluation of Proved, Probable, Possible Reserves and Contingent Resources Of Certain Norse Energy Corp. USA Oil & Gas Properties As Of 31 December 2011" prepared by the Company's long standing certification agent Schlumberger Technology Corporation ("Schlumberger")
2. **Post Year End 2011:** Significant asset sale transactions closed subsequent to the year-end 2011 certification. An addendum is provided that articulates the Company's estimated reserves and contingent resources which as of the print date had not yet been certified by Schlumberger but which are expected to be certified as a part of the Company's mid-year 2012 reserves and resources certification process.

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.

## **PART 1: Year-End 2011 Third Party Certified Reserves and Contingent Resources**

Proved, Probable and Possible Reserves for 2011 are summarized in the table below, compared to 2010:

*All Values are net Bcfg.*

Reserve Category	31 Dec 2011	31 Dec 2010	% Change	Reason for Change
PDP	9.828	11.263	(12.7%)	<i>Plus:</i> 7 New Herkimer Wells Conversion of PUDs to PDP <i>Minus:</i> Reservoir Decline; Gas Price Decline; Key Well Decline; 2011 production Deduct of 1.789 net bcf
PDNP	0.628	0.721	(12.9%)	Gas Price Decline
PUD	32.917	22.379	47.1%	24 New PUDs for a new total of 78
<b>Proved (1P)</b>	<b>43.373</b>	<b>34.363</b>	<b>26.2%</b>	
Probable	16.880	6.631	154.6%	24 New PROBS for a new total of 40
<b>Proved + Probable (2P)</b>	<b>60.253</b>	<b>40.994</b>	<b>47.0%</b>	
Possible	0.422	3.315	-87.3%	7 Less POSS (removed or converted to PROBS) for a new total of 1
<b>Proved + Probable + Possible (3P)</b>	<b>60.675</b>	<b>44.309</b>	<b>36.9%</b>	

The Company's Certified 1P Proved Reserves as of 31 December 2011, prepared by Schlumberger, increased by 26% due to the certification of 24 new proved undeveloped drilling locations. As of 31 December 2011 the Company had a total of 78 proved undeveloped seismically determined drilling locations.

The Company's Certified 2P Reserves as of 31 December 2011, prepared by Schlumberger, increased by 47% due to the certification of 24 new probable drilling locations. As of 31 December 2011 the Company had a total of 40 probable seismically determined drilling locations.

In terms of net MMBOE of reserves, the Company's year-end 2011 certified position is as follows:

	<b>1P reserves (MMBOE)</b>	*	<b>2P reserves (MMBOE)</b>	*	<b>3P reserves (MMBOE)</b>
<b>NEC TOTAL</b>	<b>7.7</b>	↑	<b>10.7</b>	↑	<b>10.8</b>

Certified 2C Contingent Resources:

The Company's Certified Contingent 2C oil and gas resource in New York increased to 4.9 TCFGE (880 MMBOE) compared to 3.9 TCFG (697 MMBOE) at the end of 2010 despite the year-end divestiture.

Of the Central New York 2C volumes of 4.0 net TCFG, the Utica accounts for 2.6 net TCFG and the Marcellus 1.2 net TCFG; the Utica contains roughly twice as much 2C as the Marcellus.

The Company's Certified Contingent 2C Resources as of 31 December 2011 now include 164 MMBOE in Western New York of which 48 MMBLS is oil. The Company's newly added certified contingent resources in Western New York include both oil and gas resources.

## **PART 2: Post Year-End 2011 Estimated Reserves and Contingent Resources**

The Company has estimated the impacts of the sale on its proven reserves and contingent resources. It should be noted that these are estimates only; Schlumberger will recertify at mid-year 2012.

As discussed earlier in the report, the Company has sold its Central New York Herkimer operated production, gathering system and right of way, while maintaining 37.5% working interest in the underlying Utica shale.

Consequently, there will be an impact on 1P, 2P, and 3P reserves, and in Central New York's 2C Contingent Resources. Western New York is unaffected.

Following the sale, Norse Energy's 1P, 2P and 3P Reserves for 2011 are estimated in the table below, compared to Schlumberger's year-end 2011 Reserve certification work:

*All Values are net Bcfg.*

<b>Reserve Category</b>	<b>Pre-Sale Certified Reserves Schlumberger 31 Dec 2011</b>	<b>Impact of Sale</b>	<b>Norse Estimated Remaining at Dec 31 2011 Post Sale</b>	<b>Reason for Change</b>
PDP	9.828	(9.828)	0	<i>All operated production sold</i>
PDNP	0.628	(0.341)	0.287	
PUD	32.917	(22.367)	10.550	53 of 78 PUD locations sold; leaves 25
<b>Proved (1P)</b>	<b>43.373</b>	<b>(32.535)</b>	<b>10.838</b>	
Probable	16.880	(2.100)	14.770	5 of 40 PROB locations sold; leaves 35
<b>Proved + Probable (2P)</b>	<b>60.253</b>	<b>(34.645)</b>	<b>25.608</b>	
Possible	0.422	0	0.422	1 POSS location remains
<b>Proved + Probable + Possible (3P)</b>	<b>60.675</b>	<b>(34.645)</b>	<b>26.030</b>	

### Estimated Impact on 2C Contingent Resources:

The net estimated impact of the subsequent sale is that Norse's 2C net resources will decline from 4.9 TCFGE to 4.4 net TCFGE (880 Net MMBOE to 777 Net MMBOE).

These post-Herkimer sale values are estimates only. The mid-year external certification is scheduled to occur in the second half of 2012.

## **DEFINITIONS:**

### **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.

#### Sub Categories of Proved Reserves

*Proved Developed Producing Reserves (PDP)* are those reserves classified as proved that are producing at the time of reserve estimate and can be expected to be recovered through existing equipment and operating methods.

*Proved Developed Not Producing (PDNP)* are those reserves classified as proved that are not producing at the time of reserve estimate and can be expected to be recovered through existing equipment and operating methods.

*Proved Undeveloped (PUD)* are those reserves classified as proved that are expected to be recovered from new wells on undrilled acreage, or from existing wells which relatively significant expenditure is required for completion.

### **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.

### **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.

1P = Proved Reserves

2P = Proved and Probable Reserves

3P = Proved, Probable and Possible Reserves

### **Contingent Resources**

Those quantities of petroleum estimated as of a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered commercially recoverable due to one more constraints.



# 2011 DIRECTORS' REPORT

## Directors' Report

Norse Energy is an oil and gas exploration, development, and production company. The Company owned or leased ~145,000 net acres in New York State of which ~33,000 lie in the liquids rich shale fairways of Western New York, and the remaining ~112,000 net acres lie in the Marcellus and Utica natural gas fairways in Central New York.

Norse Energy Corp. ASA was listed on the Oslo Stock Exchange (OSE) on 13 July 2005.

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

## Environment, Health and Safety (EHS)

In order for Norse Energy to meet its corporate goals and objectives, the Company maintains high standards for environment, health and safety in its offices and in the field. EHS is the Company's highest priority. The Company is focused on continuously improving its work environment and being flexible and timely in implementing new procedures to ensure consistency in safety results as conditions change. The Company's activities at the headquarters in Norway have minimal impact on the environment. In the United States, where the Company operates all of its natural gas properties, the Company follows strict environmental and safety policies in accordance with US federal and state regulatory requirements governing such exploration and production activities. On 14 June 2011, the Company reported that it received Notices of Violation (NOVs) from the New York State Department of Environmental Conservation 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. To the Company's knowledge all other operations where the Company was involved have been conducted within limits set by approved environmental regulatory authorities.

In 2011, Norse Energy Corp, USA employees accumulated 110,808.5 work hours. 432 hours of sick time were used due to employee illness. This represents approximately 0.38% of the work hours lost due to illness. During 2011 & 2010 the company incurred zero (0) lost work days due to recordable incidents. The company experienced 1 incident in 2011 and 4 incidents in 2010 resulting in minor damage to equipment and/or property.

It is the Company's policy to always work towards identifying and employing technical solutions that ensure safe and efficient operations. This policy has been in place during 2011 for all drilling projects.

The Company is not involved in research and development activities.

## Corporate Trends and Developments

The year 2011 was impacted by several corporate events.

### *Organizational Changes*

In September 2011 the Company appointed Chris Steinhauser as Chief Financial Officer. In October 2011 Dennis Holbrook was appointed Chief Legal Officer and Nazir Ali was appointed Executive Vice President of Operations and Reservoir Management.

### *Operations*

The Company began 2011 with a Herkimer drilling program which resulted in the successful completion of eight producing wells. While production rates met external guidance, the capital cost to drill these wells exceeded estimates. The Herkimer drilling program was temporarily suspended in August of 2011 in order to conserve the Company's capital and resources, identify lower cost drilling options and focus on shale development.

### *Regulatory Developments*

In December 2010 the New York State Governor issued an executive order barring the New York State Department of Environmental Conservation from issuing large volume hydro-fracturing permits in New York until the Supplemental Generic Environmental Impact Statement (SGEIS) is finalized. This is currently expected to occur sometime in the second half of 2012.

### *Divestitures*

On 17 February 2011 the Company announced that it had reached an agreement to sell its Gathering and Transmission ("G&T") business and its Energy Marketing ("EM") business totaling approximately USD 20.7 million to Appalachian Trading and Marketing LLC ("Appalachian"). Appalachian is a newly formed company which was established to acquire the G&T and EM assets of the Company. Appalachian was formed by the former CEO of Norse Energy, who from 22 November 2011 is a board member. The sale to Appalachian was made at arms' length in

a process employing an investment banker. The Board obtained a report from an independent third party that concluded that the shares were disposed of at the highest price offered.

The sale of the Gathering and Transmission and Marketing business closed in May 2011.

On 31 December 2011 the Group entered into a definitive agreement to sell acreage and overriding royalty interests for cash consideration of USD 26.7 million to undisclosed and unrelated buyers. Upon closing, the Group received USD 21.7 million as the first installment. The remaining cash consideration of USD 5 million was held in escrow to allow the buyers adequate time to conclude confirmatory due diligence. On 25 April the Group announced that the Buyer finished its due diligence review with ~USD 70,000 additional funds plus certain reimbursements being released from escrow. Total cash consideration for the transaction is ~USD 21.7 million. In addition, sales or pending sales totaling USD ~300,000, which were subject to third party first right of refusal, bring the total transaction value to USD ~22 million.

On 15 March 2012 the Group announced that it has entered into a definitive agreement to sell its operated production, ~23,000 held by production ("HBP") acres in which Norse retains a 37.5% working interest in the deep Utica formation, gathering system, and pipeline rights of way in Central New York. The buyer also received a three year warrant to purchase 81 million shares at a strike price of NOK 0.40 at the closing date. The transaction was closed on 16 May 2012 with proceeds of approximately USD 34.5 million debiting the Group's account. The closing is subject to ongoing due diligence which might impact negatively on the final determination of the cash consideration.

The Company assessed whether the transaction provided new information on the assets fair market value at the balance sheet date and an additional impairment charge of USD 15.9 million was included in the 2011 accounts resulting in a total impairment charge for 2011 of USD 46.2 million. Following the 15 March 2012 transaction, the line item Field investment and equipment in the balance sheet will be zero.

On 16 April 2012 the Shareholders, in an Extraordinary General Meeting, approved the sale of assets and issuance of warrants as announced on 15 March 2012. The transaction was closed on 16 May 2012 with proceeds of approximately USD 34.5 million debiting the Group's account.

#### *Natural Gas Prices*

During 2011 the price of natural gas in the United States continued to be at relatively low levels due to a slow recovery from the economic downturn and the technological advances which are significantly increasing the supply of natural gas. The combined pressures of low demand and increasing supply for natural gas in the United States has caused a decoupling of natural gas prices from oil prices. Oil prices have risen due to global demand and international risk factors affecting the supply of oil.

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

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

The revenues in this business segment are derived from selling gas produced to wholesale customers in the northeastern United States from wells which the company drills alone and with its joint venture drilling partners. Also, included in the E&P segment assets are 67 miles of midstream gathering pipeline. This pipeline gathers gas from the wellheads and transports it to sales points. The gathering system is currently connected to one interstate pipeline and one local distribution utility company.

The Company owns and holds mineral rights land leases in New York State. The mineral rights leases encompass approximately 112,000 acres in the Herkimer, Utica and Marcellus formations in Central New York and 33,000 acres in Western New York State. Approximately 24,000 acres of these leases are now "Held by Production" through the payment of production royalties for the economic lifetime of the producing wells.

On 16 April the Shareholders approved in an Extraordinary General Meeting the sale of its operated production, ~23,000 held by production ("HBP") acres (in which Norse retains a 37.5% working interest in the deep Utica formation), gathering system, and pipeline rights of way in Central New York. The effective date of the transaction will be 1 January 2012. The buyer also received a three year warrant to purchase 81 million shares at a strike price of NOK 0.40 at the closing date. The transaction was closed on 16 May 2012 with proceeds of approximately USD 34.5 million debiting the Group's account. The closing is subject to ongoing due diligence which might impact negatively on the final determination of the cash consideration. Total cash consideration subject to customary adjustments was USD 36.4 million. Substantially all of the revenues from this segment were sold in May of 2012.

Revenue in 2011 amounted to USD 22.2 million, up 64% from USD 13.5 million in 2010. This primarily reflects the sale of the exploratory acreage that resulted in a USD 9.2 million gain. Further the declining natural gas futures resulted in a significant mark to market increase in unrealized hedging gains from USD 956 thousand in 2010 to USD 4 million in 2011.

## **Going Concern Assumption**

The annual financial statements have been prepared pursuant to the going concern assumption, in accordance with section 3-3 of the Norwegian Accounting Act. This assumption is based upon the successful outcome of the financial

challenges facing the Company as described in this report. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

The Group faced challenges related to liquidity and bank and bond covenant compliance as of 31 December 2011. The Group's cash balance was approximately USD 4 million on 31 December 2011.

As a result of the declining commodity price for natural gas, the Group is not in compliance with the equity covenants at the balance sheet date. As part of the refinancing agreement entered into on 28 February 2012, the bondholders have granted a waiver on the financial covenants through 20 June 2012.

Approximately USD 21.7 million of cash was received on 3 January 2012 from an asset sale. See Note 7 Sale of acreage and overriding royalty interests and Note 31 Subsequent events. Upon receipt, the Group paid down the full balance of its revolving credit agreement of USD 10.75 million and purchased a USD 3 million letter of credit with Amegy bank.

On 28 February 2012, the Group announced it had reached a refinancing agreement with its bondholders constituting a majority in each of the NEC 02, 04 and 05 bond issues. The Group issued new convertible bonds with principal amount of minimum USD 21 million and maximum USD 40 million, where the minimum amount of USD 21 million was settled by conversion of a corresponding principal amount of NEC02/04/05 bonds (pro rata). The convertible debt has a strike of NOK 0.37 per share (subject to adjustment clauses), carries a 5% coupon, is 3 years in duration, contains a call provision, and is secured by the shares in the Group's wholly owned subsidiary, Norse Energy Holdings Inc.

The Group is to prepay the remaining outstanding bonds, in total ~USD 35 million, at par within 20 June 2012, provided it secures the necessary financing thereof through asset sales, sale of further convertible bonds to new investors, issuance of equity, other M&A activity and/or joint ventures. The Group presented the bondholders with a plan to source the ~USD 35 million prepay on 15 March 2012.

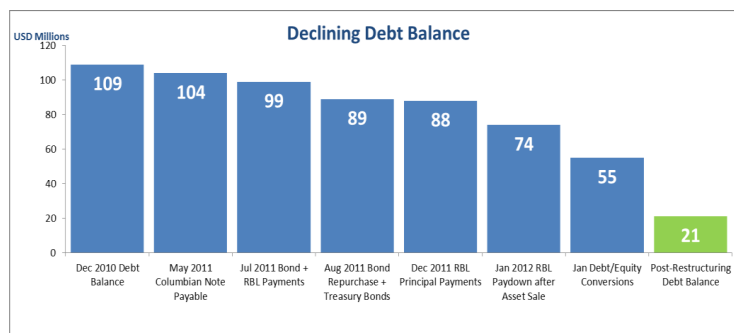
The Group announced on 10 April 2012 the following transactions:

- The NEC03 bonds (par value USD 3.74 million) were called and replaced by a new bond loan ("NEC06") . Upon issue of NEC06 the bondholders received 750,000 warrants to subscribe for 7.5 million shares in the Company at strike NOK 0.28 per share, with 1 year duration. The NEC06 bond loan is expected to be paid in full as part of the ~USD 35 million prepay announced 15 March 2012.
- Issuance of new convertible bonds with principal amount of USD 21 million which has been settled by conversion of a corresponding principal amount of NEC02/04/05 bonds (pro rata).

The Group's interest bearing debt balance has declined from ~USD 109 million to ~USD 55 million, and upon closing of the Herkimer transaction, the Group's interest bearing debt balance is projected to be further reduced to ~USD 21 million. The following transaction summary explains the decline:

- May 2011 - ~USD 4.2 million Columbia Note Payable was paid in full
- July 2011 - ~USD 4 million NEC 03 Scheduled Principal Payment
- July 2011 - ~USD 1 million paid to reduce Reserve Based Lending revolver
- August 2011 - ~USD 8 million bond debt purchased at a discount to par in open market transactions
- August 2011 - ~USD 2 million of treasury bonds were retired at a gain.
- December 2011 - ~USD 1 million paid to reduce Reserve Based Lending Revolver
- January 2012 - ~USD 11 million paid from the proceeds of the December sale of assets. The revolver was paid in full as a result.
- January - February 2012 - ~USD 20 million converted from bond debt to equity in a series of transactions as described in Note 22 Interest-bearing debt.

May 2012 - ~USD 35 million bond debt will be repaid from the proceeds of the completed Herkimer sale. Reference can be made to Note 31 Subsequent events.



The Group incurred a net loss of USD 80,204 million (parent: net loss of NOK 495 million) during the year ended December 31, 2011 and, as of that date, the Group's current liabilities exceeded its total assets by USD 21,793 million. The Group's equity was negative as at 31 December 2011. The Group and the parent are dependent on new equity or other financing in order to continue as a going concern. The Group's cash position was ~USD 4.5 at end of April 2012 and is just sufficient to finance operations into the third quarter of 2012. Following the sale of the Herkimer the Group has no producing assets providing cash inflows and new funding is required to conduct its operations.

In order to address the Group's liquidity requirements going forward, the following alternatives are under consideration:

- additional asset sales
- joint ventures with industry partners
- issuance of additional equity
- issuance of additional debt
- further cost reduction measures

The Group cannot guarantee that it will be able to conduct the intended asset sales or obtain the necessary debt or equity financing, as required to fund current operations and meet maturing debt liabilities. Even if such financing is obtained, no assurance can be given that such financing will be on terms acceptable to the Group. A failure to obtain required financing in time will materially adversely affect the Group's business, operations and financial condition.

On 8 July 2011, the New York State Department of Environmental Conservation (DEC) issued the preliminary draft Supplemental Generic Environmental Impact Statement (SGEIS). The revised draft SGEIS was issued by the DEC on 7 September 2011 followed by proposed regulations to implement the SGEIS. The public comment period for both expired on 11 January 2012. A review of the comments received during the public comment period will be conducted before issuance of the final SGEIS and corresponding regulations. 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 Shale, Utica Shale, and other shale 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 Group's assets if they were to be offered for sale.

As described above the Group's continued operation is dependent on the successful outcome of the financial and regulatory challenges facing the Group.

## The Accounts

The 2011 operating loss in the Condensed Consolidated Income Statement table below was primarily affected by an ~USD 9 million gain sale of exploratory acreage closed on 31 December within Total Revenues and an impairment charge of ~USD 46 million, which was an ~USD 31 million increase over the amount recorded in 2010. The impairment was recognized on the operated production due to market conditions within Total Operating Expenses.

For a description of the full set of financial statements see the discussion below the table and the "Consolidated Financial Statements".

### Condensed Consolidated Income Statement

Amounts in USD (000s)	2011*	2010*	Change
<b>Total Revenues</b>	<b>22,199</b>	<b>13,541</b>	<b>64%</b>
<b>Total Operating Expenses</b>	<b>(85,326)</b>	<b>(54,619)</b>	<b>56%</b>
<b>Operating Loss</b>	<b>(63,127)</b>	<b>(41,078)</b>	<b>54%</b>
Net Financial Items	(7,070)	(18,181)	61%
<b>Loss before taxes</b>	<b>(70,197)</b>	<b>(59,259)</b>	<b>18%</b>
Income Taxes	(4,973)	475	N/A
<b>Net Loss from Continuing Operations</b>	<b>(75,170)</b>	<b>(58,784)</b>	<b>28%</b>
Net Income from Discontinued Operations	(5,034)	24,141	121%
<b>Net Loss</b>	<b>(80,204)</b>	<b>(34,643)</b>	<b>132%</b>

\* The financial results of Nornew Energy Supply, Inc., Norse Pipeline, LLC, and Mid-American Natural Resources are shown as discontinued operations. The 2010 results of Norse Energy do Brasil, S.A. are shown as discontinued operations.

### *Income Statement*

Natural gas sales net volume was 1,789,418 Mcf (318,969 BOE) in 2011 compared to 2,116,980 Mcf (377,358 BOE) in 2010, a 327,562 Mcf decrease, or 15%. Net sales volume decreased due to the net revenue interest of joint venture partners in the 2010-2011 Herkimer drilling program. During 2010, the Group acquired 3D seismic data on a portion of its leased and fee acreage. Approximately half the cost of this program was included in operating expenses. The analysis of the seismic data provided an enhanced drilling location inventory. Drilling recommenced in October 2010 with the addition of joint venture partners, which was subsequently suspended in August of 2011.

The effective natural gas price realized in 2011 was USD 5.01/Mcf compared to USD 5.93/Mcf in 2010, a USD 0.92/Mcf decrease, or 15%, due to lower average prices in the Group's hedge contracts and lower NYMEX monthly settlement price. The average NYMEX monthly settlement price in 2011 was USD 4.04/Mcf compared to USD 4.39/Mcf in 2010, a USD 0.35/Mcf decrease, or 8%.

Oil and gas revenues in 2011 were USD 9,009 compared to USD 12,585 in 2010, a USD 3,576 decrease, or 28%. The decline in oil and gas revenue is a result of both lower net production volumes and lower realized hedge price contracts. The decreased net production volume accounted for 54%, or USD 1,940, of the decline and the lower realized price accounted for 46%, or USD 1,636, of the decline. Fair value adjustments and other income for 2011 were USD 13,189 compared to USD 956 for last year, a USD 12,233 increase. The increase is primarily comprised of USD 2,943 unrealized mark-to-market gain on hedge contracts in 2011 compared to a USD 493 gain in 2010 and the USD 9,186 gain on the sale of acreage and overriding royalty interests.

Production expense was USD 4,655 in 2011 compared to USD 3,830 in 2010, a USD 825 increase, or 22%. The increased costs were due to higher property taxes and field compliance and maintenance projects. General and administrative expense for 2011 was USD 19,786 compared to USD 19,536 in 2010, a USD 250 increase, or 1%. General and administrative expense in 2011 decreased as a result of demerger expenses in 2010 and cost cutting measures taken during 2011, however a valuation allowance was taken against accounts receivable of USD 3.9 million in 2011.

Loss on investment in affiliate of USD 1,515 in 2011 was a result of the write down to estimated fair value of an available for sale security accounted for using the cost method due to declining market conditions and expiring acreage. The investment is an 18% ownership in small privately held oil and gas exploration and production company in Western New York.

Earnings before interest, taxes, depreciate and amortizations (EBITDA) were USD -9,733 in 2011 compared to USD -15,056 in 2010, a USD 5,323 decrease in negative earnings, or 35%. Exploration expense was USD 5,976 in 2011 compared to USD 5,231 in 2010, a USD 745 increase, or 14%. EBITDAX was USD -3,757 for 2011 compared to USD -9,825 in 2010, a USD 6,068 increase, or 62%. EBITDAX is an Oil and Gas industry term which adds back certain Exploration costs, such as the Company's acquisition of 3D Seismic and delay rentals, to EBITDA.

Depreciation expense was USD 7,185 in 2011 compared to USD 10,515 in 2010, a USD 3,330 decrease, or 32%. The decline in depreciation during 2011 reflects the impairment charges taken against the production assets. Impairment for 2011 was USD 46,209 compared to USD 15,507 in 2010, a USD 30,702 increase, or 198%, due to higher drilling costs and continuing decline in the natural gas futures price.

Net interest expense was USD 14,947 in 2011 compared to USD 13,568 for 2010, a USD 1,379 increase, or 10%, as a result of the step-up in interest rates on the Group's bond debt due to restructuring the bonds on 30 June 2010 and additional warrant discount amortization from the NEC-K warrants which were issued as part of the restructuring.

Tax expense was USD 4,973 in 2011 compared to a USD 475 tax benefit in 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.

Net loss was USD -80,204 for 2011 compared to a USD -34,643 net losses in 2010, representing a USD 45,561 increase in net loss, or 132%. The 2011 net loss includes a USD 9,186 gain on the sale of acreage and overriding royalty interests, a USD 5,197 loss on the sale of the mid-stream assets, and impairment of USD 46,209. 2010 net loss includes a USD 9,201 loss on the Panoro investment and a USD 13,302 reclassification adjustment gain, a USD 8,147 gain on demerger related to the sale of Norse Energy do Brasil and impairment of USD 15,507.

### *Statement of Financial Position*

Total assets were reduced by USD 90,411 million primarily due to the sale of the Midstream assets to Appalachian in May of 2011. The Midstream assets consisted of Norse Pipeline LLC, Mid-American Natural Resources LLC, and Nornew Energy Supply Inc, which were comprised of long-term assets of USD 20,825 million and short-term assets of USD 9,956 million. The remaining decrease is attributed to a USD 46,209 write-down on the Natural Gas Assets for impairment and a USD 20,625 use of cash, explained by the changes in cash within the Statement of Cash Flows.

Total Liabilities declined by USD 38,828 that included payoff of the USD 4,237 Columbia note related to the Midstream assets sale, retirement of bond debt through buyback of USD 8,398. The remaining amount was mainly due to the liabilities associated with Mid-American Natural Resources LLC.

#### *Cash Flow Statement*

The Group's net cash out flow from operating activities was USD -21.6 million compared to USD -11.9 million in 2010. Net cash flow from investing activities was USD 3.5 million compared to USD -27 million in 2010. The variation is mainly explained by proceeds from sale of the Midstream assets in 2011 of USD 19.7 million and a loss on a short term investment in Panoro Energy stock of USD -9.2 million in 2010 that financed the initial public offering and was a condition of the demerger between Norse Energy Corp, ASA and Panoro Energy.

The main cause for the difference between the cash flow from operating activities of USD -21.6 million and the operating loss of USD -80.2 million is the impairment charge of USD 46.2 million.

The higher equity financing of USD 71.5 million in 2010 compared to USD 28.5 million in 2011 explains reduction in cash financing activities year over year of USD 2.1 million for 2011 compared to cash flow from financing of USD 40.2 million for 2010.

## **Parent Company Norse Energy Corp. ASA**

### **Accounts**

The loss for the year in the parent company was NOK 495 320 thousand, heavily influenced by the write down of the investment in its US subsidiary Norse Energy Holdings Inc. by NOK 523 622 thousand following the significant reduction in the market capitalization of the parent company on Oslo Stock Exchange. General and administrative expenses were reduced compared to 2010 following the demerger in June 2010. Other finance income has increased significantly due to expiration of the NEC J warrants and the extinguishment of bonds. Other financial cost was reduced significantly compared to 2010. In 2010 a loss of NOK 61 949 thousand was recognized on the sale of shares in Panoro Energy ASA, in addition capitalized loan transaction costs of NOK 7 875 was written off following the debt restructuring in 2010.

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

The Board of Directors proposes that the loss for the year of NOK 495 320 thousand in the parent Company carried forward. As of 31 December 2011 the parent Company has no unrestricted equity.

### **Funding**

As of 31 December, the Group's cash balance was USD 4.0 million. After receipt of proceeds from the year end land sale, the Group's cash position is just sufficient to fund the Group into the third quarter of 2012. The Group has completed the sale of the Herkimer assets to improve the balance sheet.

The Group realized a net gain on the announced 2011 asset sale of USD ~9.2 million, which improved its short-term cash position and provides a benchmark for additional divestitures for funding of the Group's future operations.

On 28 February 2012, the Group reached a refinancing agreement with its bondholders constituting a majority in each of the NEC02, NEC04 and NEC05 bond issues. See Note 22 Interest-bearing debt.

As the SGEIS process continues to progress investor interest is expected to increase. A positive outcome of the SGEIS regulatory process is expected to enable Norse to develop the Marcellus and Utica shale formations in New York State on its own or with partners, in addition to continuing development of the Herkimer sandstone.

The addition of 48.3 million Bbls of certified contingent oil resources on the Group's Western New York leased acreage is expected to further increase interest in the Group's assets. If further asset sales are unsuccessful, or not timely, the Group will seek refinancing in the capital markets which could include both debt and equity alternatives and the possible conversion of the Group's bond debt into equity.

#### *Equity Issuance*

The equity to asset ratio 31 December 2011 was a negative 36 percent compared to positive 15.4 percent the prior year. The Board is continuously working to improve the Group's financial flexibility and it has recognized the need to improve the financial position of Norse Energy.

In February 2012, Norse issued 343,521,379 new shares under a Private Placement with three tranches in exchange for approximately US 22 million in bonds from the NEC02 and NEC04 series. Reference Note 31 Subsequent events for more detailed information regarding this transaction.

The extraordinary general meeting on 30 March 2012 approved the consolidation of the Group's whereby 10 existing shares with nominal value NOK 0.36883488 will be replaced by 1 new share with par value NOK 3.6883488. The

right to each shareholder to receive new shares shall be rounded up to the nearest number of whole shares. During this meeting shareholders also approved the issue of 750,000 warrants with a right to subscribe ten new ordinary shares at NOK 0.28 per share (NOK 2.80 per share post implementation of the reversed split). The warrants will be allocated to investors of the new USD 3.74 NEC06 bond loan and enters into a warrant agreement with the Group.

In April 2012 the General Meeting approved the issue of 8,100,000 warrants at a subscription price of NOK 0.40 per share with a three year maturity to Emkey Resources LLC as a condition of the Herkimer asset sale.

The Group issued 55 million warrants (NEC-K) in conjunction with the June 2010 bond restructuring. The warrants give the right to new ordinary shares at NOK 2.21 per share.

The Company may issue additional equity to improve its liquidity in the future.

For a listing of the largest shareholders at year end see Note 10 Shareholders equity and shareholder information plans in the Parent Company Financial Statements.

#### *Bond restructuring*

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

On 4 July 2011 the Group amended its bond agreements to change the issuer from Norse Energy Holdings, Inc. to the Norse Energy Corporation ASA. The change in issuer eliminated the US requirements for withholding tax on interest payments made by a US borrower to investors who are not exempt from US withholding taxes. See further details below.

On 9 January 2012, the Group announced that DCF Capital had subscribed for a total of 53,120,000 Norse shares at a subscription price of NOK 0.40 per share. The subscription amount was settled by DCF delivering to the Group (a) bonds in NEC04 with a total nominal amount of NOK 6,800,000.00 and (b) bonds in NEC02 with a nominal value of USD 2,400,000.00.

On 17 February 2012, approximately USD 18.5 million of NEC 02 bonds was tendered for conversion into 290,401,379 shares at a subscription price of NOK 0.37 per share. The new shares are issued under the power of attorney granted the Board of Directors of the Group in the Extraordinary General Meeting on 22 November 2011.

On 28 February 2012, the Group reached a refinancing agreement with its bondholders constituting a majority in each of the NEC 02, 04 and 05 bond issues. The Group will issue a new convertible bond with principal amount minimum USD 21 million and maximum USD 40 million, where the minimum amount of USD 21 million will be settled by conversion of a corresponding principal amount of NEC02/04/05 bonds (pro rata). The convertible debt has a strike of NOK 0.37 per share (subject to adjustment clauses), carries a 5% coupon, is 3 years in duration, contains a call provision, and is secured by the shares in the Group's wholly owned subsidiary, Norse Energy Holding Inc.

The Group is to prepay the remaining outstanding bonds, in total ~USD 35 million, at par within June 2012 ("the Remedy Period"), provided it secures the necessary financing thereof through asset sales, sale of further convertible bonds to new investors, issuance of equity, other M&A activity and/or joint ventures. The Group presented the bondholders with a plan to source the ~USD 35 million on 15 March 2012 from the proceeds of the announced Herkimer sale. A waiver of all financial covenants was granted by the bond trustee until June to allow the Group time to secure the funding.

The NEC03 bonds (par value USD 3.74 million) were called in April 2012 and were replaced by a new bond loan ("NEC06"). This loan is USD 3.74 million (the same as the par amount on the NEC03 bonds) with a coupon of Libor plus 0.5%, and it is secured with first priority in the security package for the NEC bonds. Subscribers of this bond received warrants to subscribe for 7.5 million shares in the Group at strike NOK 0.28 per share, with 1 year duration. The NEC06 bond loan is expected to be paid in full as part of the ~USD 35 million prepay announced 15 March 2012.

The bondholders have agreed to waive financial covenants in the Remedy Period, and to give any waivers required to implement and finance the restructuring proposal. As a consequence of the restructuring, the Group will obtain up to 3 years extended maturity for USD 21 million of bond debt. See Note 17 Financial instruments for the contractual maturities on financial liabilities, including estimated interest payments following the conversion of bonds to shares and refinancing agreement.

Principal payments on the bonds were adjusted accordingly to the following table:  
(USD millions)

	Old	New
2012	35.6	34.5*
2013	32.2	0
2014	9.4	0
2015	0	21.0
<b>Total</b>	<b>77.5</b>	<b>55.5</b>

\*USD 22 million has been paid down through equity swaps in February 2012 and the USD 21 million was refinanced in April 2012 moved out till 2015 per above. The remaining USD 34.5 million will be settled by 20 June per the refinancing agreement reached on 28 February 2012 with the proceeds from the Herkimer sale.

For further details on bond debt and funding, please refer to Note 22 Interest-bearing debt in the consolidated financial statements.

#### *Bank Reserve Based Lending*

Norse Energy utilizes reserve based bank lending by pledging its natural gas reserves as a security interest in a bank revolving credit to increase the Group's funding ability. Natural gas reserves are evaluated twice annually by Schlumberger and the bank's own independent reserve consultant and, based upon the market value of the reserves, the borrowing base under the revolving credit facility is re-determined.

As of 31 December 2011 the Group had drawn USD 10.75 million of a USD 13.75 million borrowing base with USD 3 million held as a letter of credit for margin risk of natural gas future contracts. Due to the nature of the credit line and covenant violations, the debt is classified as a current or short term liability.

On 3 January 2012, the Group paid down the full balance of its revolving credit agreement and purchased a USD \$3 million certificate of deposit using proceeds from the 31 December 2011 sale of acreage and overriding royalty interests. The letter of credit was reduced to USD 1 million on 23 February 2012. Following the Herkimer sale this credit facility will no longer be in place.

#### *Joint Ventures*

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

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

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

The joint venture drilling program was suspended in August 2011. Reference Note 29 Legal proceedings in the consolidated financial statements.

#### *Asset Sales*

On 2 January 2012 the Group announced that it has entered into a definitive agreement to sell acreage and overriding royalty interests for cash consideration of USD 26.7 million to undisclosed and unrelated buyers. The Group received USD 21.7 million. With the exception of certain expense reimbursements, the USD 5 million held in escrow was returned to the buyer upon completion of confirmatory due diligence.

Norse is selling leases and fee interests totaling approximately 18,100 acres in Central New York and overriding royalty interests of (i) 2.5% on 24,300 acres that are held by production ("HBP") in Central New York; (ii) 3.75% on 84,000 non-HBP leased and fee acres located in Central New York; and (iii) 6.25% on 33,000 acres located in Western New York. Not included in this transaction are the Group's proved reserves, including those reserves in the Herkimer Formation.

The Group announced on 15 March 2012 that it has entered into a definitive agreement to sell its operated production, ~23,000 held by production ("HBP") acres (in which Norse retains a 37.5% working interest in the deep Utica formation), gathering system, and pipeline rights of way in Central New York. The buyer will also receive a three year warrant to purchase 81 million shares at a strike price of NOK 0.40 at the closing date. The transaction was closed on 16 May 2012 with proceeds of approximately USD 34.5 million debiting the Group's account. The closing is subject to due diligence which might impact negatively on the final determination of the cash consideration. This asset sale is an important component to fund the bond debt restructuring that we announced on 28 February 2012. The

buyer is EmKey Resources, LLC, a privately owned company, led and partially owned by Øivind Risberg, a current Norse board member and former Norse Energy CEO.

## **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 Group faces but it is not inclusive of every risk. Financial risk management is managed by the financial department in close cooperation with the operating units, under policies approved by the Board of Directors. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on financial performance

### *Liquidity*

Financing and liquidity risk arises from not having the necessary resources from current operations available to fund current operations and meet maturing debt liabilities. Failure to maintain liquidity could also have an impact on the Group's financial performance through higher interest rates or possibly even forced liquidation. As of 31 December 2011, the Group's bond debt repayment profile, requiring installments of USD 35.6 million in 2012, USD 11.4 million in 2013, and USD 8.4 million in 2014, requires future fundraising, either from debt refinancing, sale of assets or equity issues.

On 28 February 2012, the Group reached a refinancing agreement with its bondholders constituting a majority in each of the NEC 02, 04 and 05 bond issues. The NEC03 bonds (par value USD 3.74 million) are being called and replaced by a new bond loan ("NEC06") with approximately 1 year longer duration (2013). The bondholders have agreed to waive financial covenants to give the Group time to implement and finance the restructuring proposal.

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

The Group cannot guarantee that it will be able to conduct the intended asset sales or obtain the necessary debt or equity financing, as required to meet maturing debt liabilities and fund current operations, and even if such financing is obtained, no assurance can be given that such financing will be on terms acceptable to the Group. A failure to obtain required financing in time to meet the Group's maturing debt liabilities will materially adversely affect the Group's business, operations and financial condition.

### *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 Group hedges a portion of its future natural gas sales to provide some price stability in its base production. Following the asset transactions described above, the risk related to natural gas prices, will mainly impact the Groups ability to attract partners and funding for its future development of its acres.

### *Exploration and Development Cost & Reserve Volume*

Drilling costs and well completion costs are often uncertain due to site-specific drilling conditions. All contingent resources are within a relatively confined geographic area in New York State. There is no assurance that Norse can find and develop reserves on its acreage through future drilling.

The Group has no history of drilling horizontal shale wells with large volume hydraulic fracturing. However, the technology is readily available from drilling subcontractors which the Group 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 Energy might be limited by its human and financial resources. The Group 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 Group 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 Group's contingent resources 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. While the Group anticipates the SGEIS to be issued in the second half of 2012, there is no certainty that it will be finalized in a timely manner.

#### *Funding and Liquidity*

The Group has been actively pursuing the sales of assets to fund operations and reduce debt. The timing and the success of asset sales may or may not be sufficient to enable the Group to raise cash or to reduce its debt burden to manageable levels. If the asset sales are unsuccessful or not timely, the Group may seek refinancing in the capital markets which could include both debt and equity alternatives. See above for status of the refinancing at the date of this report.

#### *Bond Covenants*

The Group is required to maintain a minimum of USD 36 million in shareholders' equity, and a minimum equity to capitalization ratio of 30% under NEC03, NEC04, and NEC05. As of 31 December 2011, the Group was not in compliance with these covenants. The Group has negotiated a restructuring proposal that provides a waiver of these financial covenants until June 2012. If the Group is unable to fulfill the terms of the restructuring proposal by that date, then the Group may be out of compliance with the financial covenants and may be in default of its bond loan agreements.

#### *Currency Risk and Interest*

The Group's functional currency is USD. All of the Group's operations and most of its cash flows are in USD. The Group 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 31 December 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 31 December 2011.

## **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 Group 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 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 Group properly discharges its duty.

The Board acknowledges the Norwegian Code of Practice for Corporate Governance of 21 October 2010 and the principle of comply or explain. Norse Energy has implemented the Code and will use its guidelines as the basis for the Board's governance duties. A summary of the corporate governance policy is incorporated in a separate section of this report.

## **Discrimination and Equal Employment Opportunities**

Norse Energy is an equal opportunity employer, and integrates an equality concept into its human resources policies. All employees are governed by Norse Energy's Code of Ethics to ensure uniformity within its workforce. Norse Energy does not tolerate any form of harassment, discrimination or insulting behavior that employees, business contacts or others might find threatening or demeaning. All employees are entitled to fair and equal treatment. At Norse Energy, a diversified working environment is embraced, valuing and respecting individual abilities and differences. Employees are remunerated based upon skill level, performance and position within the Group. Norse Energy is a knowledge-based Group 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. The Group supports its employees in continuing development of their skills through ongoing education that furthers The Groups goals of being at the forefront of efficient and innovative industry practices. The Group encourages measures that make it easier to combine a career with family life.

## **Personnel and Organization**

The Group's workforce declined from 72 to 34 in 2011. The reduction was primarily due to sale of mid-stream assets and cost efficiency initiatives to decrease overhead cost, where the workforce was reduced by approximately 30%. Of the remaining employees 74% are men and 26% are women. The working environment in the Group is considered good.

## **Directors and Shareholders**

According to its Articles of Association, the Company must have a minimum of five and a maximum of eight directors on its Board. The current number of Board members is five, all non-executive directors. Two out of five shareholder

elected board members are women, and Norse Energy Corporation ASA thus fulfills the requirement under section 6-11a of the Public Limited Liability Companies Act regarding representation of both genders on the Board of Directors. The members have varied backgrounds and experience which offer the Group valuable perspectives. The Board held 26 meetings during the year.

## Outlook

The significant reduction of debt accomplished by successful completion of asset sales and equity offerings has provided the Company with a significantly improved balance sheet and a more comfortable leverage position allowing for some optimism for future delivery of favorable returns to its shareholders. The promising early geologic analysis of the Group's valuable oil and gas resources could prove to be the turning point.

The New York Department of Environmental Conservation release of its Supplemental Generic Environmental Impact Statement (SGEIS) is expected in the second half of 2012. Norse Energy will in 2012 plan for the development of its significant shale oil and gas resources.

After assuring EHS delivery, the first goal of the Group is to secure the liquidity needed to run the business into 2013. To accomplish this goal, the Board of Directors is considering additional asset sales, issuance of additional equity, and issuance of additional debt. The second goal is to form a strategic partnership with a respected operator to test and develop Western New York, leading to full field development with oil as a priority. The third goal is to strategically develop Central New York's Marcellus and Utica gas. The fourth goal is to consolidate and restructure the Group to keep our run rate low and increase overall efficiency. The fifth goal is to grow outside of New York where it makes sense. Doing these five things well will deliver significant value to our shareholders.

The Board of Directors

Oslo, 21 May 2012  
Norse Energy Corp. ASA



Cecelie Amdahl  
*Chairperson of the Board*



Bjarte Bruheim  
*Director*



Elin Karfjell  
*Director*



Frank Pici  
*Director*



Øivind Risberg  
*Director*



Mark Dice  
*President and CEO*



## Board of Directors

**Cecilie Amdahl**, Chairperson of the Board, born in 1964. Mrs. Amdahl is a partner of Law firm Schjødt AS which she joined in 2000. Prior to that Mrs. Amdahl was a partner of the law firm Det Midtnorske Advokatkontor AS. She specializes in tax and corporate law and is professionally responsible for and heads Schjødt's tax department. She has broad experience from working with Norwegian as well as and international corporations in a spectrum of industries, specializing in structuring and financing. Mrs. Amdahl holds several board positions, among others in Bridge Energy ASA, Acta Kapitalforvaltning AS and Wunderlich Securities AS. Mrs. Amdahl is a graduate of Oslo University with a law degree in 1989. She is a Norwegian citizen and resides in Oslo, Norway and has been a Board member since 2011. Number of shares in NEC: 0



**Bjarte Bruheim** Non-Executive Director, born 1955. 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. Mr. Bruheim is a graduate of the Norwegian University of Science and Technology with an MSc in physics and electronics. He is a Norwegian citizen and resides in Houston, USA. Board member since 2008. Number of shares in NEC: 12,000,000



**Elin Karfjell**, Non-Executive Director, born 1965. Ms. Karfjell is CEO of Fabi Group AS. Prior to that, she was Director of Finance and Administration of Atea AS. She is former partner of Ernst & Young AS. Ms. Karfjell joined Ernst & Young AS in 2002. Prior to this, Ms. Karfjell held various positions including partner at Arthur Andersen. At Ernst & Young/Arthur Andersen, she held various leading positions, both within advisory and audit, and she has experience from a broad specter of industries. Ms. Karfjell is also a Board Member of Aktiv Kapital ASA and Aker Philadelphia Shipyard ASA. Previously she had been a Board Member of DNO International ASA and Aker Floating Production ASA. Ms. Karfjell is a state authorized public accountant. She has a bachelor accountant's degree from Okonomisk College (Høyskolen i Oslo) and a master of accounting and auditing from the Norwegian School of Economics and Business Administration. Ms. Karfjell is a Norwegian citizen and resides in Oslo, Norway. Board member since 2011. Number of shares in NEC: 0



**Frank A. Pici**, Non-Executive Director born 1956. Mr. Pici is the Chief Financial Officer and Treasurer of CVR Energy and has been in the energy industry for more than twenty years. From 2001-2010, he was Executive Vice President and CFO of Penn Virginia Corporation (PVA), a publicly traded oil and gas exploration and production company focused on unconventional resource and shale plays. Simultaneously, he served as CFO of Penn Virginia GP Holdings, L.P. and Penn Virginia Resource Partners, L.P., two publicly-traded Master Limited Partnerships. Prior to working for PVA, Mr. Pici served 5 years as Vice President and CFO for Mariner Energy Inc., an oil and gas exploration and production company operating onshore and in deep-water in the Gulf of Mexico. Mr. Pici also has experience from Cabot Oil & Gas Corp., a publicly traded oil and gas exploration and production company. He has an MBA from the University of Pittsburgh, a Business Administration education from Clarion University and is also a Certified Public Accountant (presently inactive). Mr. Pici is an American citizen living in suburban Philadelphia, Pennsylvania in the US. Board member since 2011. Number of shares in NEC: 0



**Øivind Risberg**, Non-Executive Director, born in 1958. Founder, Chief Executive Officer and President of EmKey Energy, LLC a mid-stream Appalachian Company formed in 2011 which today owns and operates about 350 miles of gathering systems and provide gas and electric marketing services, all in Appalachia. Prior to this, Mr. Risberg was CEO of the publicly listed Norse Energy Corp. ASA which he was the co-founder of in 1991, which primarily has been operating in the E&P onshore US. He was also founder and Board member of the Brazilian Biofuel Energy ASA. Mr. Risberg has 20 years of experience from the oil and natural gas industry. He is a former partner of the investment bank Alfred Berg Norge AS. 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 Risberget, Norway. Number of shares in NEC: 7,427,301 and 30% interest in EmKey warrants to subscribe for 81,000,000 shares





## Senior Management

**Mark Dice.** Chief Executive Officer of the Norse Group since September 2010, born 1957. Prior to his appointment as CEO he was Chief Operating Officer of NEC and has been with the company since June 2009. Mr. Dice has over 30 years of diverse international oil and gas industry experience having held positions in BP and Amoco including Exploration Manager, Commercial Manager, Performance Unit Leader in the Deepwater Gulf of Mexico and Vice President of Petrotechnical Development. Mr. Dice has deep roots in Appalachia. He grew up in Pittsburgh Pennsylvania, studied geoscience in Ohio and spent the early part of his career exploring throughout the Appalachian basin. He holds an MBA from the Kellogg Graduate School of Management at Northwestern University in Chicago, Illinois, an M.S. in Geology from Kent State University in Kent, Ohio and a B.S. in Geology from Muskingum College in New Concord, Ohio. Number of shares in NEC: 2,250,000



**J. Chris Steinhauser.** Chief Financial Officer since September 2011, born 1959. Prior to his appointment as CFO he was Executive Vice President, Mergers and Acquisitions and has been with the company since April 2010. Mr. Steinhauser has held several executive financial positions over the last 20 years and has a solid track record of bringing start-up oil and gas companies to the public markets. He has a Degree in Business Administration from the University of Southern California, conducted graduate studies at the University of Denver and was a Certified Public Accountant. Number of shares in NEC: 0



**S. Dennis Holbrook.** Chief Legal Officer has been with the company since October 2008, born 1953. Mr. Holbrook has over 35 years' experience in the energy industry, focusing on legal, public policy, contractual and regulatory matters. He has a B.A. in political science from Bucknell University, a Juris Doctorate from the Columbus School of Law, Catholic University and is also a graduate of the Executive Development Program of the University of Michigan, Graduate School of Business Administration. Mr. Holbrook serves on the board of directors of both public service and industry organizations, including the Independent Oil & Gas Association of New York, on which he has served as a director for over 25 years. Mr. Holbrook is a US citizen and resides in East Aurora, New York. Number of shares in NEC: 2,183,873



**Stuart Loewenstein.** Executive Vice President Exploration and Development, born 1960. Mr. Loewenstein has over 25 years of experience in the oil and gas industry. In 1983 Mr. Loewenstein completed a Bachelor's 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. Number of shares in NEC: 361,556



**Nazir Ali.** Executive Vice President Operations and Reservoir Management since October 2011, born 1954. Mr. Ali has over 35 years of experience in the oil and gas industry, in a variety of leadership, functional, and operational roles in several business locations, including Trinidad, Norway, Aberdeen, London, and Houston. Mr. Ali's previous roles, most with BP, included leading the development and implementation of best practice across BP's E & P division in the life cycle of field development, with particular focus on optimization. He holds a BSc in Chemical Engineering and an MBA diploma from Rice University. Mr. Ali is a citizen of the United States and resides in Houston, Texas. Number of shares in NEC: 0





# CONSOLIDATED FINANCIAL STATEMENTS

## Consolidated Statement of Comprehensive Income

(in USD thousands, except earnings per share)

	Note	2011	2010 <sup>(1)</sup>
<b>Total revenues</b>	<b>8</b>	<b>22,199</b>	<b>13,541</b>
<b>Expenses</b>			
Production costs		4,655	3,830
Exploration and dry hole cost		5,976	5,231
Depreciation	<b>14</b>	7,185	10,515
Impairment	<b>14</b>	46,209	15,507
Loss on investment in affiliate		1,515	-
General and administrative expenses	<b>12</b>	19,786	19,536
<b>Total operating expenses</b>		<b>85,326</b>	<b>54,619</b>
<b>Operating loss</b>		<b>(63,127)</b>	<b>(41,078)</b>
Interest income		195	211
Interest expense		(15,142)	(13,779)
Net foreign exchange gain		20	474
Other financial items	<b>11</b>	7,857	(5,087)
<b>Net financial items</b>		<b>(7,070)</b>	<b>(18,181)</b>
<b>Loss before taxes</b>		<b>(70,197)</b>	<b>(59,259)</b>
Income tax	<b>9</b>	(4,973)	475
<b>Net income / (loss) from continuing operations</b>		<b>(75,170)</b>	<b>(58,784)</b>
<b>Net income / (loss) from discontinued operations</b>	<b>4,5,6</b>	<b>(5,034)</b>	<b>24,141</b>
<b>Net income / (loss)</b>		<b>(80,204)</b>	<b>(34,643)</b>
Exchange differences arising from translation of foreign operations		-	(3,377)
Reclassification adjustments relating to discontinued foreign operations	<b>5</b>	-	(13,302)
Other comprehensive income		-	-
<b>Other comprehensive income / (loss)</b>		<b>-</b>	<b>(16,679)</b>
<b>Total comprehensive income / (loss)</b>		<b>(80,204)</b>	<b>(51,322)</b>
<b>Net loss attributable to:</b>			
Shareholders of the parent company		(80,204)	(33,270)
Non-controlling interests	<b>21</b>	-	(1,373)
<b>Total</b>		<b>(80,204)</b>	<b>(34,643)</b>
<b>Total comprehensive loss attributable to:</b>			
Shareholders of the parent company		(80,204)	(48,936)
Non-controlling interests	<b>21</b>	-	(2,386)
<b>Total</b>		<b>(80,204)</b>	<b>(51,322)</b>
Basic and diluted earnings per share from continuing operations <sup>(2)</sup>	<b>13</b>	(0.11)	(0.12)
Basic and diluted earnings per share from discontinued operations <sup>(2)</sup>	<b>13</b>	(0.01)	0.05

(1) The 2010 financial results of Norse Energy do Brasil, S.A. are shown as discontinued operations.

(1) For comparative purposes, the financial results of Norse Energy Supply, Inc., Norse Pipeline, LLC, and Mid-American Natural Resources are shown as discontinued operations.

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

## Consolidated Statement of Financial Position

(in USD thousands)

	Note	2011	2010
<b>ASSETS</b>			
<b>Non-current assets</b>			
<b>Intangible assets</b>			
License interests and exploration assets	14	7,835	23,092
Goodwill and other intangible assets	15	-	5,678
<b>Total intangible assets</b>		<b>7,835</b>	<b>28,770</b>
<b>Properties and field investments</b>			
Field investment and equipment	14	31,444	85,212
Other fixed assets	14	1,245	2,621
<b>Total properties and field investments</b>		<b>32,689</b>	<b>87,833</b>
Other non-current assets	17, 18	2,412	5,021
<b>Total non-current assets</b>		<b>42,936</b>	<b>121,624</b>
<b>Current assets</b>			
Accounts receivable and other short-term assets	7, 17, 19	25,567	16,665
Cash and cash equivalents	19	3,955	24,580
<b>Total current assets</b>		<b>29,522</b>	<b>41,245</b>
<b>TOTAL ASSETS</b>		<b>72,458</b>	<b>162,869</b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Share capital	20	44,412	30,466
Share premium	20	70,296	55,771
Treasury shares		(14)	(14)
Other paid in capital		42,512	42,512
<b>Total paid-in equity</b>		<b>157,206</b>	<b>128,735</b>
Other equity		(183,662)	(103,608)
<b>Total equity attributable to shareholders of the parent</b>		<b>(26,456)</b>	<b>25,127</b>
Non-controlling interests		-	-
<b>Total equity</b>		<b>(26,456)</b>	<b>25,127</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Long-term interest-bearing debt	17, 22	-	80,757
Asset retirement obligations	23	4,663	3,084
Other long-term liabilities	17	-	7,312
<b>Total non-current liabilities</b>		<b>4,663</b>	<b>91,153</b>
<b>Current liabilities</b>			
Accounts payable	17	9,161	24,216
Short-term interest-bearing debt	22	84,350	18,531
Other current liabilities	17	740	3,842
<b>Total current liabilities</b>		<b>94,251</b>	<b>46,589</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>72,458</b>	<b>162,869</b>

The Board of Directors


Oslo, 21 May 2012  
Norse Energy Corp. ASA



Cecelie Amdahl  
*Chairperson of the Board*



Bjarte Bruheim  
*Director*



Elin Karfjell  
*Director*



Frank Pici  
*Director*



Øivind Risberg  
*Director*



Mark Dice  
*President and CEO*

## Consolidated Statement of Changes in Equity

(in USD thousands)	Note	Share capital	Share premium	Treasury shares	Other paid in capital	Retained earnings	Other Equity	Attributable to parent shareholders	Non-controlling interests	Total
<b>At January 1, 2010</b>		<b>49,007</b>	<b>17,627</b>	<b>(14)</b>	<b>76,983</b>	<b>(74,620)</b>	<b>19,970</b>	<b>88,953</b>	<b>30,084</b>	<b>119,037</b>
Net loss for the year		-	-	-	-	(33,270)	-	(33,270)	(1,373)	(34,643)
Other comprehensive income for the year:										
Reclassification adjustment relating to discontinued foreign operations		-	-	-	-	-	(13,302)	(13,302)	-	(13,302)
Currency translation and other adjustments		-	-	-	-	-	(2,364)	(2,364)	(1,013)	(3,377)
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(33,270)</b>	<b>(15,666)</b>	<b>(48,936)</b>	<b>(2,386)</b>	<b>(51,322)</b>
Net change from demerger of Norse Energy do Brasil S.A.	5	(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 <sup>(1)</sup>		(24,503)	-	-	24,503	-	-	-	-	-
Employee share options	10	-	-	-	-	-	(22)	(22)	-	(22)
<b>At December 31, 2010</b>		<b>30,466</b>	<b>55,771</b>	<b>(14)</b>	<b>42,512</b>	<b>(107,890)</b>	<b>4,282</b>	<b>25,127</b>	<b>-</b>	<b>25,127</b>
<b>At January 1, 2011</b>		<b>30,466</b>	<b>55,771</b>	<b>(14)</b>	<b>42,512</b>	<b>(107,890)</b>	<b>4,282</b>	<b>25,127</b>	<b>-</b>	<b>25,127</b>
Net loss for the year		-	-	-	-	(80,204)	-	(80,204)	-	(80,204)
Total comprehensive income for the year		-	-	-	-	(80,204)	-	(80,204)	-	(80,204)
Share issue		13,946	14,525	-	-	-	-	28,470	-	28,470
Employee share options	5	-	-	-	-	-	150	150	-	150
<b>At December 31, 2011 <sup>(2)</sup></b>		<b>44,412</b>	<b>70,296</b>	<b>(14)</b>	<b>42,512</b>	<b>(188,094)</b>	<b>4,432</b>	<b>(26,456)</b>	<b>-</b>	<b>(26,456)</b>

- (1) The reduction in share capital approved at the Extraordinary General Meeting on January 28, 2010, as part of the Demerger plan, was registered with the Register of Business Enterprises in February 2010.
- (2) As of December 31, 2011, the Group had negative shareholders' equity. Subsequently, debt to equity conversions increased shareholders' equity by approximately USD 22 million.

## Consolidated Statement of Cash Flows

(in USD thousands)

	Note	2011	2010
<b>Cash flows from operating activities</b>			
Net loss		(80,204)	(34,643)
Adjustments to reconcile net profit/(loss) to cash flows from operating activities:			
(Income)/loss from discontinued operations	4, 14	5,034	(24,141)
Depreciation	14	7,185	10,515
Impairment of properties and field investments	14	46,209	15,507
Non-cash exploratory activities		3,005	-
Loss on short term investment	5, 11	1,515	9,201
Market adjustments, warrants, options and shares	11	(11,471)	(6,408)
Loss on sale of mid-stream assets	4	5,197	-
Gain on sale of acreage and overriding royalty interests	7	(9,186)	-
(Gain)/loss on disposal of assets		(1,954)	1,956
Gain on extinguishment of debt	11	(2,419)	-
Interest income		(194)	(211)
Interest expense		15,142	13,779
Change in deferred taxes	9	4,973	(475)
Movements in working capital:			
Change in accounts receivable and other short-term assets		2,026	306
Change in accounts payable		(9,767)	3,778
Other adjustments		3,328	(1,031)
<b>Net cash flows from operating activities</b>		<b>(21,581)</b>	<b>(11,867)</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of acquired assets		1,465	849
Proceeds from sale of mid-stream assets	6	19,675	-
Purchase of short-term investment	5		(17,656)
Proceeds from sale of short-term investment	5		8,455
Payments for properties and field investments		(17,658)	(18,669)
<b>Net cash flows from investing activities</b>		<b>3,482</b>	<b>(27,021)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issuance of shares, net		28,470	71,535
Net Interest Received/(Paid)		(10,400)	(10,619)
Repayment of interest-bearing debt		(16,009)	(20,674)
<b>Net cash flows from financing activities</b>		<b>2,061</b>	<b>40,242</b>
<b>Effect of foreign currency translation adjustment on cash balances</b>		<b>(61)</b>	<b>496</b>
<b>Net cash provided by (used in) discontinued operations</b>	4	<b>(4,526)</b>	<b>(14,573)</b>
<b>Change in cash and cash equivalents during the period</b>		<b>(20,625)</b>	<b>(12,723)</b>
<b>Cash and cash equivalents at beginning of the period</b>	19	<b>24,580</b>	<b>37,303</b>
<b>Cash and cash equivalents at the end of the period</b>	19	<b>3,955</b>	<b>24,580</b>



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Note 1. Corporate information

Norse Energy Corp. ASA is a public limited liability company incorporated and domiciled in Norway. The address of the main office is Munkedamsveien 35, 3<sup>rd</sup> floor, 0250 Oslo, Norway. The consolidated financial statements for the year ended 31 December 2011, were approved by the Board of Directors on 22 May 2011. The principal activity of Norse Energy Corp. ASA and its subsidiaries is the acquisition, exploration and development of oil and natural gas properties in the US.

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

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

### New and revised IFRSs affecting amounts reported in the current year (and/or prior years)

#### New and revised IFRSs affecting presentation and disclosure only

None

#### New and revised IFRSs affecting the reported financial performance and/or financial position

None

### New and revised IFRSs applied with no material effect on the consolidated financial statements

The following new and revised IFRSs have also been adopted in these consolidated financial statements. The application of these new and revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

The amendments to IAS 24 *Related Party Disclosures*, revised the following two aspects: (a) IAS 24 (as revised in 2009) has changed the definition of a related party and (b) IAS 24 (as revised in 2009) introduces a partial exemption from the disclosure requirements for government-related entities. The Company and its subsidiaries are not government-related entities. The application of the revised definition of related party set out in IAS 24 (as revised in 2009) in the current year has not resulted in the identification of related parties that were not identified as related parties under the previous Standard.

The amendments to IAS 32 *Classification of Rights Issues* address the classification of certain rights issues denominated in a foreign currency as either equity instruments or as financial liabilities. Under the amendments, rights, options, or warrants issued by an entity for the holders to acquire a fixed number of the entity's equity instruments for a fixed amount of any currency are classified as equity instruments in the financial statements of the entity provided that the offer is made pro rata to all of its existing owners of the same class of its non-derivative equity instruments. The application of amendments has had no effect on the Group's consolidated financial statements as the Group's warrants were not issued to the owners of the Group's equity instruments but the owners of the Group's bond debt.

The amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement* address when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19; how minimum funding requirements might affect the availability of reductions in future contributions; and when minimum funding requirements might give rise to a liability. The application of amendments has had no effect on the Group's consolidated financial statements.

IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* provides guidance on the accounting for the extinguishment of a financial liability by the issue of equity instruments. Specifically, under IFRIC 19, equity instruments issued under such arrangement will be measured at their fair value, and any difference between the carry amount of the financial liability extinguished and the consideration paid will be recognized in profit or loss. The application of amendments has had no effect on the Group's consolidated financial statements.

The application of *Improvements to IFRSs* issued in 2010 has not had any material effect on amounts reported in the consolidated financial statements.

## New and revised IFRSs in issue but not yet effective

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

Amendments to IFRS 7	Disclosures - Transfers of Financial Assets <sup>1</sup>
IFRS 9	Financial Instruments <sup>2</sup>
IFRS 10	Consolidated Financial Statements <sup>3</sup>
IFRS 11	Joint Arrangements <sup>3</sup>
IFRS 12	Disclosure of Interests in Other Entities <sup>3</sup>
IFRS 13	Fair Value Measurement <sup>3</sup>
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income <sup>4</sup>
Amendments to IAS 12	Deferred Tax - Recovery of Underlying Assets <sup>5</sup>
Amendments to IFRS 7	Disclosures - Offsetting Financial Assets and Financial Liabilities <sup>3</sup>
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities <sup>6</sup>
IAS 19 (as revised in 2011)	Employee Benefits <sup>3</sup>
IAS 27 (as revised in 2011)	Separate Financial Statements <sup>3</sup>
IAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures <sup>3</sup>
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after July 1, 2011.

<sup>2</sup> Effective for annual periods beginning on or after January 1, 2015.

<sup>3</sup> Effective for annual periods beginning on or after January 1, 2013.

<sup>4</sup> Effective for annual periods beginning on or after July 1, 2012.

<sup>5</sup> Effective for annual periods beginning on or after January 1, 2012.

<sup>6</sup> Effective for annual periods beginning on or after January 1, 2014.

The amendments to IFRS 7 introduce additional disclosures, designed to allow users of financial statements to improve their understanding of transfer transactions of financial assets, including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

IFRS 7 is effective for annual periods beginning on or after July 1, 2011 with early application of the amendments permitted. Norse Energy does not anticipate that these amendments will have an effect on the Group's disclosures. However, if the Group enters into other transfers of financial assets in the future, disclosures regarding those transfers may be affected.

IFRS 9, issued in November 2009, introduces new requirements for classifying and measuring financial assets as follows: Debt instruments meeting both a 'business model' test and a 'cash flow characteristics' test are measured at amortized cost (the use of fair value is optional in some limited circumstances). Investments in equity instruments can be designated as 'fair value through other comprehensive income' with only dividends being recognized in profit or loss. All other instruments (including all derivatives) are measured at fair value with changes recognized in profit or loss. The concept of 'embedded derivatives' does not apply to financial assets within the scope of the Standard and the entire instrument must be classified and measured in accordance with the above guidelines.

A revised version of IFRS 9, amended in October 2010, incorporates revised requirements for the classification and measurement of financial liabilities, and carries over the existing derecognition requirements from IAS 39. The revised financial liability provisions maintain the existing amortized cost measurement basis for most liabilities. New requirements apply where an entity chooses to measure a liability at fair value through profit or loss – in these cases, the portion of the change in fair value related to changes in the entity's own credit risk is presented in other comprehensive income rather than within profit or loss.

IFRS 9 is effective for annual periods beginning on or after January 1, 2015, with earlier application permitted. Norse Energy does not anticipate that these amendments will have an effect on the Group's financial statements.

In May 2011, a package of five Standards was issued including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011).

Key requirements of these five Standards are described below.

IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns.

IFRS 11 requires that a party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligations and accounts for those rights and obligations in accordance with that type of joint arrangement. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the

rights and obligations of the parties to the arrangements. In contrast, under IAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

Joint ventures are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method or proportionate accounting.

IFRS 12 requires the disclosure of information that enables users of financial statements to evaluate: the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

IAS 27 (as revised in 2011) requires that when an entity prepares separate financial statements, investments in subsidiaries, associates, and jointly controlled entities are accounted for either at cost, or in accordance with IFRS 9 *Financial Instruments*. The Standard also deals with the recognition of dividends, certain group reorganizations and includes a number of disclosure requirements.

IAS 28 (as revised in 2011) supersedes IAS 28 *Investments in Associates* and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The Standard defines 'significant influence' and provides guidance on how the equity method of accounting is to be applied (including exemptions from applying the equity method in some cases). It also prescribes how investments in associates and joint ventures should be tested for impairment.

These five standards are effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time. Norse Energy has not yet determined its adoption date for these standards and is still evaluating the potential impact of these standards.

IFRS 13 *Fair Value Measurement*, issued in May 2011, defines fair value, sets out in a single IFRS a framework for measuring fair value, and requires disclosures about fair value measurements. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. Norse Energy has not yet determined its adoption date for this standard and is still evaluating the potential impact of this standard.

The *Presentation of Items of Other Comprehensive Income* amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that will be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis. The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

The amendments to IAS 12 provide an exception to the general principles in IAS 12 that the measurement of deferred tax assets and deferred tax liabilities should reflect the tax consequences that would follow the manner in which the entity expects to recover the carrying amount of an asset. Specifically, under the amendments, investment properties that are measured using the fair value model in accordance with IAS 40 are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances. The amendments are effective for annual periods beginning on or after January 1, 2012. Norse Energy does not anticipate that these amendments will have an effect on the Group's financial statements.

The *Disclosures - Offsetting Financial Assets and Financial Liabilities* amendments to IFRS 7 require information about all recognized financial instruments that are set off in accordance with paragraph 42 of IAS 32 *Financial Instruments: Presentation*. The amendments also require disclosure of information about recognized financial instruments subject to enforceable master netting arrangements and similar agreements even if they are not set off under IAS 32. The IASB believes that these disclosures will allow financial statement users to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with an entity's recognized financial assets and recognized financial liabilities, on the entity's financial position. Norse Energy has not yet determined its adoption date for these amendments and is still evaluating the potential impact of these standards.

The *Offsetting Financial Assets and Financial Liabilities* amendments to IAS 32 clarify certain aspects because of diversity in application of the requirements of offsetting, focused on four main areas: the meaning of "currently has a legally enforceable right of set-off", the application of simultaneous realization and settlement, the offsetting of collateral amounts, and the unit of account for applying the offsetting requirements.

The amendments to IAS 19 *Employee Benefits*, issued in June 2011 and effective for annual periods beginning on or after January 1, 2013, revise the requirements for pensions and other postretirement benefits, termination benefits, and other changes. Norse Energy does not anticipate that these amendments will have an effect on the Group's financial statements. However, if the Group enters into termination transactions in the future, the Group's financial statements may be affected.

IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* clarifies the requirements for accounting for stripping costs associated with waste removal in surface mining, including when production stripping costs should be recognized as an asset, how the asset is initially recognized, and subsequent measurement. Norse Energy does not anticipate that this guidance will have an effect on the Group's financial statements.

### Note 3. Summary of significant accounting policies

#### Statement of compliance and of preparation

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

#### Basis of consolidation

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

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

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

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

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

#### Balance sheet classification

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

#### Foreign currency translation

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

	2011		2010	
	Average rate	Reporting date rate	Average rate	Reporting date rate
Norwegian kroner/USD	5.6074	5.9927	6.0453	5.8564

#### Investments in affiliates

An associate is an entity over which the Group has significant influence and is neither a subsidiary nor a joint venture interest. Significant influence is defined as the power to participate in the financial and operating policy decisions of

the investee, but is not control or joint control over those policies. Significant influence is presumed to exist when the Group holds an interest between 20% and 50% in another entity. However, significant influence can also exist when the Group 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.

At each balance sheet date the investment is reviewed for impairment. Market conditions and other investment data are used to estimate the fair value. An adjustment is recorded for the amount the investment's net book value differs from its estimated fair value.

As of 31 December 2011 and 2010, the Group had an investment in an entity of USD 0 and 1.5 million. As described above, the Group accounts for this investment using the cost basis as the Group does not have significant influence over the entity.

#### **Available for sale securities**

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

#### **Jointly controlled assets**

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

#### **Revenue recognition**

##### Sale of petroleum products

Revenue is recorded on the basis of the Group's proportionate share of total natural gas sold from the affected wells. A liability is recorded for the share of the production owned by any partners or royalty owners in the property. Revenue from fields in production is recorded net of royalties.

##### Gathering and transmission revenue

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

##### Energy marketing revenue

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

#### **Income tax**

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

##### Current tax

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

##### Deferred tax

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

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

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

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

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

### **Earnings per share**

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

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

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

### **Goodwill**

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

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

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

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

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

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

### **Impairment**

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

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

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

**Leasing**

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

**Derivatives and hedge accounting**

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

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

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

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

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

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

**Share options granted to employees**

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

**Pension expenses**

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

**Cash and cash equivalents**

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

**Receivables**

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

**Inventory**

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

**Equity****Treasury shares**

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

**Costs of equity transactions**

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

### **Distributions of non-cash assets to owners**

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

### **Loans**

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

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

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

### **Asset retirement obligation**

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

### **Provisions**

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

### **Use of estimates and judgment**

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

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

#### Exploration and leasehold costs

The Group capitalizes the costs of drilling exploratory wells and leasehold costs pending determination on whether the wells have found proved oil and gas reserves. Judgments on whether these expenditures should remain capitalized or charged to exploration and dry hole cost in the period may materially impact the operating income. USD 7.8 million and USD 23.1 million were capitalized as of December 31, 2011 and 2010, respectively.

#### Price of oil and natural gas

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

#### Future capital expenditures and operating expenses

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

#### Reserves

The Group obtains reserve reports at least annually to establish the expected production profiles for the fields in production and the expected economic lifetime of the fields. Any significant reduction in reserves might lead to a write down of field investments through impairment tests, increased future depreciation and alterations of planned capital expenditures. The carrying amounts for field investments are USD 31.4 million and USD 85.2 million in 2011 and 2010, 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 4.7 million and USD 3.1 million are recognized as of December 31, 2011 and 2010, respectively.

### Tax

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

### Financial Instruments

Valuation of unquoted financial instruments recognized at fair value, is based on estimated future cash flows and discounted with interest rates prevailing December 31, 2011.

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 12. Income tax

Note 14. License interests and exploration assets and properties and field investments

Note 15. Goodwill and other intangible assets

Note 17. Financial instruments

Note 23. Asset retirement obligation

## **Note 4. 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 Group's operations in Brazil and the operations of Norse Pipeline, LLC, Nornew 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, Nornew Energy Supply, Inc., Mid-American Natural Resources, LLC, and Norse Energy do Brasil S.A. for all comparative periods presented in this report.

### **Summary of financial data for discontinued operations**

(in USD thousands)	2011	2010*
Revenue	28,410	107,180
Expense	27,680	96,263
EBITDA	730	10,917
Depreciation	494	4,440
Impairment	-	-
EBIT	236	6,477
Financial income/(expense)	(73)	(13,407)
Net foreign exchange gain/ (loss)	-	8,533
Income tax income/(expense)	-	1,089
Net income/(loss)	163	2,692
Loss on sale of mid-stream assets (note 6)	(5,197)	-
Reclassification adjustments relating to discontinued foreign operations	-	13,302
Gain on demerger (note 5)	-	8,147
<b>Total net income/(loss) from discontinued operations</b>	<b>(5,034)</b>	<b>24,141</b>
(in USD thousands)	2011	2010
Net cash provided by operating activities	(4,238)	(10,374)
Net cash used in investing activities	(41)	392
Net cash used in financing activities	(247)	(4,188)
Effects of foreign currency on cash balances	-	(403)
<b>Net cash provided by/(used in) discontinued operations</b>	<b>(4,526)</b>	<b>(14,573)</b>

\*The 2010 financial results of Norse Energy do Brasil, S.A. are shown as discontinued operations.

## Note 5. Demerger of Norse Energy do Brasil S.A.

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

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

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

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

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

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

### Fair market value of Brazilian assets

(in USD thousands, unless otherwise noted)	June 8, 2010
Shares outstanding	62,098
Price per share (NOK)	9.30
Fair market value of Brazilian assets (NOK)	577,514
Fx rate (NOK/USD)	6.6840
<b>Fair market value of Brazilian assets</b>	<b>86,403</b>

### Gain calculation

(in USD thousands)	June 8, 2010
Fair market value of Brazilian assets	86,403
Assets of demerged activity	(289,349)
Liabilities of demerged activity	183,395
Equity interest in minority interest	27,698
<b>Gain on demerger</b>	<b>8,147</b>

## Note 6. Sale of mid-stream assets

On 31 May 2011, the Group 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 entities 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. This loss is included in the net loss from discontinued operations for 2011 (See Note 4 Discontinued operations).

### 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)
<b>Loss on sale</b>			<b>(5,197)</b>

### Note 7. Sale of acreage and overriding royalty interests

On 31 December 2011, the Group through its subsidiary, Norse Energy Corporation USA, entered into a definitive agreement to sell acreage and overriding royalty interests for cash consideration of USD 26.7 million to undisclosed and unrelated buyers. USD 5 million was held in escrow while the buyer completed confirmatory due diligence.

The Group is selling leases and fee interests totaling approximately 18,100 acres in Central New York and overriding royalty interests of (i) 2.5% on 24,300 acres that are held by production ("HBP") in Central New York; (ii) 3.75% on 84,000 non-HBP leased and fee acres located in Central New York; and (iii) 6.25% on 33,000 acres located in Western New York.

Not included in this transaction are the Group's proved reserves, including those reserves in the Herkimer Formation.

On 3 January 2011, the Group received USD 21.7 million. With the exception of certain expense reimbursements, the USD 5 million held in escrow was returned to the buyer.

### Gain calculation

(in USD thousands)	
Purchase price	26,691
Less: Acreage rejected in due diligence	(5,000)
Net cash received	21,691
Book value of assets sold	(11,949)
Fees and commissions	(556)
Gain on sale at 31 December 2011	9,186

### Note 8. Operating segments

Following the demerger of Norse Energy do Brasil S.A. and the sale of the Group's mid-stream assets, the Group no longer has multiple operating segments. Below are the Group's revenue from major products and services.

## Revenue from major products and services

(in USD thousands)	Note	2011	2010
Oil sales		45	40
Natural gas sales		8,965	12,545
Gain on Sale of Acreage	7	9,186	-
Mark-to-market adjustments and other income		4,004	956
<b>Total</b>		<b>22,199</b>	<b>13,541</b>

Nearly all of the Group's natural gas sales are with two companies, Appalachian Transportation and Marketing LLC (also known as EmKey Energy, LLC that comprises ~90% and New York State Electric and Gas (NYSEG) makes up the remaining ~10%. The failure of either of these entities to perform could result in the loss of current and future earnings to the extent that replacement contracts with other purchasers and marketers could not be established. However, following the close of the transaction announced 15 March 2012 substantially all of the group's production was sold. Reference can be made to Note 31 Subsequent events.

## Note 9. Income tax

(in USD thousands)	2011	2010
<u>Norway</u>		
Tax Payable	-	-
Change in deferred tax	-	-
<u>USA</u>		
Tax Payable	-	-
Change in deferred tax from continuing operations	4,973	(475)
<u>Canada</u>		
Tax Payable	-	-
Change in deferred tax	-	-
<b>Net income tax expense (benefit)</b>	<b>4,973</b>	<b>(475)</b>

\*See note 4 for change in deferred tax from discontinued operations

### Deferred income tax relates to the following:

(in USD thousands)	Norway	US	Total
Losses to carry forward	25,221	38,457	63,679
Current assets	-	579	579
Current liabilities	28	(1,693)	(1,665)
Non-current assets	3	27,218	27,221
Non-current liabilities	815	(22,807)	(21,992)
Deferred tax assets not recognized	(26,067)	(41,754)	(67,821)
<b>Net deferred tax assets (liabilities) as of December 31, 2011</b>	<b>-</b>	<b>-</b>	<b>-</b>

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

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

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

(in USD thousands)	2011	2010
Loss before tax	(70,197)	(59,259)
Income tax benefit at nominal income tax rate of 34%	(23,867)	(20,148)
Non-deductible expenses	(2,320)	5,761
Tax included in impairment of asset calculation		-
Effect of previously unrecognized and used tax losses now recognized as deferred tax assets	(383)	(250)
Adjustment to previous years	40	(140)
Tax expense impact of nominal tax rate other than 34% <sup>(1)</sup>	1,295	(931)
Tax losses for which no deferred tax asset was recognized	30,208	15,230
Other effects	-	2
<b>Income tax expense (benefit)</b>	<b>4,973</b>	<b>(475)</b>

(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.

The Group has net operating loss carry forwards for income tax reporting purposes as depicted on the schedule below. The net tax loss carry forwards in Norway have unlimited duration and are related to the parent company, Norse Energy Corp. ASA. The related deferred tax asset has not been recognized due to the uncertainty of whether any of the tax loss carry forwards can be utilized. In the US, the tax loss carry forwards have a limited duration of 20 years. The prevailing tax authority restricts the utilization of the net operating loss carry forwards in the event of a change in control. The related deferred tax asset has not been recognized due to the uncertainty of whether any of the tax loss carry forwards can be utilized.

(in USD thousands)

Losses to carry forward	Norway	US	Total
2013	-	-	-
2014	-	-	-
2015	-	-	-
2016	-	-	-
2017	-	-	-
After 2017	-	98,869	98,869
No expiration date	90,076	-	90,076
<b>Total tax loss carried forward</b>	<b>90,076</b>	<b>98,869</b>	<b>188,945</b>

## Note 10. Share-based payment plans

The Group has an option program consisting of 56 million shares for key employees. On 30 May 2011, the Annual General Meeting held by the Company approved an increase to the share capital upon exercise of an option program for senior management in the amount of NOK 20,654,753. The authority shall remain in force until 30 June 2013. The number of options approved was 38 million.

As of 31 December 2011, 10.8 million options have been granted (1.6 million were granted during 2011) of which 9.3 million options are exercisable. As a result of the demerger on 8 June 2010, there was a change in ownership and all options outstanding on that date became exercisable. In addition, there was a repurchase of vested options and a repricing of remaining options by increasing the number of options held by 40%. All options under the plan will be settled in shares.

Options outstanding as of 31 December 2011, are as follows:

(in USD thousand, unless otherwise indicated)

Name	# of shares	Option price in NOK	Exercise period	Estimated value
Mark Dice	4,166,667	2.10	9 June 2010 - 3 July 2014	994,961
Chris Steinhäuser	1,335,000	1.03 - 2.86	8 June 2012 - 15 April 2016	234,823
Dennis Holbrook	833,333	2.01	9 June 2010 - 24 July 2014	191,803
Other employees	4,475,000	2.01 - 2.86	1 June 2009 - 8 June 2015	1,104,095
<b>Total</b>	<b>10,810,000</b>			<b>2,525,682</b>

The fair value of the options is estimated at grant date by an independent third party expert using the Black-Scholes – Merton option pricing model. The exercise price of the options is equal to the market price of the shares at the grant

date plus eight percent, and the volatility of the warrants that the Group issued and listed on the Oslo Stock Exchange in July 2006. The expected exercise date is set to the contractual vesting period of 2 years. Risk free interest rate used is 2.48% - 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% - 76.2%, and no dividends are incorporated.

The options are expensed over the vesting period, which was USD 0.2 million and USD 0.9 million in 2011 and 2010, respectively. The stock options outstanding at the end of 2011 had an exercise price range of NOK 1.03 – NOK 2.86 and a weighted average remaining contractual life of 848 days and 953 days in 2011 and 2010, respectively.

No options were exercised during 2011. Should an employee decide to terminate their employment prior to the start of the exercising period, the options shall expire without any further compensation. As of 31 December 2011, twenty-four employees have been granted options. Refer to Note 9 General and administrative expenses for further details regarding the Group's options programs.

Reconciliation of changes in options outstanding, are as follows:

<b>Outstanding at January 1, 2010</b>	<b>13,415,000</b>
Changes during the period:	
Granted during the period	2,483,333
Forfeited & Expired during the period	1,050,000
Exercised during the period	(725,000)
<b>Outstanding at January 1, 2011</b>	<b>16,223,333</b>
Changes during the period:	
Granted during the period	1,635,000
Forfeited & Expired during the period	(7,048,333)
Exercised during the period	-
<b>Outstanding at December 31, 2011</b>	<b>10,810,000</b>

## Note 11. Other financial items

(in USD thousands)	2011*	2010*
Warrant effect MTM- profit/(loss)	8,536	5,891
Extinguishment of Bonds/ treasury bonds MTM	2,411	188
Withholding tax on bond interests	-1,901	-
Bond issue cost	-	-1,718
Loss on available for sale securities	-	-9,201
Other	-1,189	-248
<b>Total</b>	<b>7,857</b>	<b>-5,087</b>

\*Does not include the other financial items of Norse Energy Supply, Inc., Norse Pipeline, LLC, & Mid American Natural Resources as they are included in discontinued operations.

## Note 12. General and administrative expenses

### Employee benefit expenses

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

(in USD thousands)	2011*	2010*
Wages	6,419	7,249
Employer's contribution	676	885
Other compensation	1,357	1,629
<b>Total</b>	<b>8,452</b>	<b>9,763</b>

\*Does not include the employee benefit expenses of Norse Energy Supply, Inc., Norse Pipeline, LLC, & Mid American Natural Resources as they are included in discontinued operations.

<i>Employee benefit expenses and compensation for discontinued operations</i>	2011	2010
Wages	506	1,371
Employer's contribution	44	80
Other compensation	50	141
<b>Total</b>	<b>600</b>	<b>1,592</b>

<b>Number of employees</b>	2011	2010
Norway	1	1
USA (Sold companies)	-	11
USA (Remaining companies)	33	59
Canada	-	1
<b>Total</b>	<b>34</b>	<b>72</b>

### Board of Directors statement on remuneration of executives

#### Statement for the current year (2012)

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 suggests the compensation structure and levels of the Group'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 Group. The CEO has two years' salary and bonus in case of termination without cause within one year following the date of a change in control.

The Group 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 Group'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 announced a proposed share option program for the employees as a discussion topic to the annual general meeting on 29 May 2012. The overall amount of options granted under the Stock Option Plan shall be in accordance with the Board of Directors' "Statement regarding salaries and other remuneration for leading employees" and resolutions on the issue of warrants by the general meeting. The Group will request authorization to issue 12,056,833 warrants (representing approximately 11% of share capital) in accordance with the provisions of the Public Companies Act Chapter 11 III. Each subscription right shall give right to subscribe for ten new ordinary shares with nominal value NOK 0.36883488. Following the implementation of the reversed split proposed, each warrant will give right to subscribe for one share with NOK 3.6883488 in par value. The vesting periods are described by the stock option plan for 2006 and 2008 whereby the vesting period is two years and can be exercised within a three year period from completed vesting.

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

The remuneration of the CEO and other executive management in 2011 was based on the same general principals as disclosed above for the current year. Severance owed to the former CEO accrued for in the previous year was settled in March 2011.

#### **Management remuneration**

Executive management is considered to consist of the CEO, CFO, & CLO. In accordance with their employment contracts the CEO, Mark Dice, is entitled to one year salary and bonus in case of termination without cause and two years' salary and bonus in case of termination without cause within one year following the date of a change in control and the CFO, Chris Steinhauser, is entitled to one year's salary in case of termination without cause. No other members of the executive, management have entered into any service contracts with the Company or any of its subsidiaries providing for benefits upon termination of their employment. Mr. Boughrum had entered into a consulting arrangement for the month of December to assist with transition matters. The consulting arrangement ended 31 December 2011.

Executive management remuneration is summarized below:

(in USD thousands)					Change in value of options	
2011	Salary	Bonus	Benefits	Pension costs		Total
Mark Dice, CEO	564	200	184	7	-	955
Dennis Holbrook, CLO*	291	80	39	7	-	417
Chris Steinhauser, CFO & EVP of M&A**	281	125	31	-	-	437
Richard Boughrum, Former CFO***	307	98	68	-	-	473
<b>Total</b>	<b>1,443</b>	<b>503</b>	<b>322</b>	<b>14</b>	<b>-</b>	<b>2,282</b>

\*Effective date: November 4, 2011

\*\*Effective date: September 2, 2011. Replaced Mr. Boughrum

\*\*\*Resignation effective date: December 1, 2011. Replaced by Mr. Steinhauser

					Change in value of options	
2010	Salary	Bonus	Benefits	Pension costs		Total
Mark Dice, CEO*	420	-	8	7	-	435
Richard Boughrum, CFO**	337	-	13	-	-	350
Øivind Risberg, Former CEO	534	175	19	7	82	817
Anders Kapstad, Former CFO***	595	-	18	-	-	613
<b>Total</b>	<b>1,886</b>	<b>175</b>	<b>58</b>	<b>14</b>	<b>82</b>	<b>2,215</b>

\*Effective date: September 28, 2011. Replaced Mr. Risberg

\*\*Effective date: November 10, 2009. Replaced Mr. Kapstad in June 2010

\*\*\*Resignation effective date: June 7, 2010. Replaced by Mr. Boughrum

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

(in USD thousands)	2011	2010
Cecilie Amdahl, Chairman <sup>(1)</sup>	-	-
Dag Erik Rasmussen, Former Chairman <sup>(1)</sup>	123	54
Other board members	319	186
<b>Total</b>	<b>442</b>	<b>240</b>

<sup>(1)</sup> On November 22, 2011, Ms. Amdahl was elected Chairman replacing Mr. Rasmussen.

No loans have been given to, or guarantees given on the behalf of, any members of the current Management Group, the Board or other elected corporate bodies.

During 2010, the Company's Brazilian subsidiaries retained Kathleen Arthur, a Board member of the Group at that time, as a consultant. Ms. Arthur had a monthly retainer of CAD 30,000.

#### Auditor's remuneration

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

(in USD thousands)	2011	2010
<b>Deloitte</b>		
Statutory audit and audit related services	599	690
Tax services	11	18
Other	25	23
<b>Total</b>	<b>635</b>	<b>731</b>

### Note 13. Earnings per share and diluted earnings per share

The Group has no potential dilutive ordinary shares as of 31 December 2011 and 2010.

(in USD thousands, unless otherwise indicated)	2011	2010
Earnings from continuing operations	(73,170)	(58,784)
Earnings from discontinued operations attributable to equity holders of the parent	(5,034)	25,514
Weighted average number of shares outstanding	680,333,632	486,355,874
Basic and diluted earnings per share from continuing operations	(0.11)	(0.12)
Basic and diluted earnings per share from discontinued operations	(0.01)	0.05
The earnings used in the calculation of basic and diluted earnings per share from discontinued operations are as follows:		
Net loss from discontinued operations	(5,034)	24,141
Less: Loss attributable to non-controlling interests	-	(1,373)
Earnings from discontinued operations attributable to equity holders of the parent	(5,034)	25,514

The 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 31 December 2011, 10,810,000 options are outstanding and a total of 55,430,000 warrants are outstanding.

The warrants are not considered to have a dilutive effect as they were out-of-the money compared to the average price in 2011. Further, since the Group incurred a net loss for the years 2011 and 2010, the options and warrants have an anti-dilutive effect and are therefore not considered when calculating diluted earnings per share.

For details regarding the employee stock option plans refer to Note 10 Share-based payment plans. Refer to Note 22 Interest-bearing debt for details relating to the bond loans with detachable warrants.

## Note 14. License interests and exploration assets and properties and field investments

(in USD thousands)	Brazil	US	Total
<b>Acquisition cost at January 1, 2011</b>	-	25,534	25,534
Transfer to production assets	-	(2,192)	(2,192)
Investments	-	1,799	1,799
Disposals	-	(4,485)	(4,485)
Sold during the year (note 7)	-	(10,379)	(10,379)
<b>Acquisition cost at December 31, 2011</b>	-	10,277	10,277
Accumulated impairment/exploration costs charged to profit	-	(2,442)	(2,442)
<b>Net carrying value at December 31, 2011</b>	-	7,835	7,835
Current year impairment/exploration costs previously capitalized	-	(3,005)	(3,005)

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

The tables below set out the expiration profile of the Central New York acreage, representing a total of 111,830 acres giving effect to the Land Sale in Note 7 Sale of acreage, and the Western New York acres representing 33,049 acres and overriding royalty interests.

### Lease expiration profile – Central New York Acreage\*

Owned	Held by Prod	Expires 2012	Expires 2013	Expires 2014	Expires 2015	Expires 2016	Expires 2017	Later	Total Acreage
1,728	24,057	22,103	11,874	10,718	6,622	10,257	11,987	12,486	111,830

\*Before force majeure lease extensions

### Lease expiration profile – Western New York Acreage\*

Owned	Held by Prod	Expires 2012	Expires 2013	Expires 2014	Expires 2015	Expires 2016	Expires 2017	Later	Total
0	0	480	3,633	508	20	14	321	28,073	33,049

\*Before force majeure lease extensions

### Force Majeure and Lease Life Extensions

Norse Energy's mineral rights leases generally contain a force majeure provision. Executive Order #41 issued by the New York State Governor in December 2010 was a force majeure triggering event because it prohibits the DEC from issuing permits for high volume hydraulic fracturing until the completion of the SGEIS regulations which continue to be undergoing regulatory review.

The exercise of the force majeure contract provision has the effect of preserving the time lost due to the Executive Order suspension of the issuance of high volume hydro-fracturing permits. Norse declared force majeure on all of its leased acres, except those held by production. So as not to disadvantage its landowners, Norse has continued to pay delay rentals on its leases as a form of pre-payment for the extension period. Under the typical lease the number of days delayed by force majeure will be added to the term of the landowner's lease extending the life of the lease and allowing more time for Norse Energy to convert the acreage into producing properties which will pay royalties to the landowner if a successful well is completed on the property.

## Field investment and equipment

(in USD thousands)	US natural gas properties	Manati	Coral	Total
<b>Acquisition cost at January 1, 2011</b>	<b>138,255</b>	-	-	<b>138,255</b>
Investments	15,442	-	-	15,442
Reclassification of assets	2,050	-	-	2,050
Disposals	(156)	-	-	(156)
Sold during the year (note 7)	(1,568)	-	-	(1,568)
Sold to Appalachian Transportation & Marketing	(26,549)	-	-	(26,549)
<b>Acquisition cost at December 31, 2011</b>	<b>127,474</b>	-	-	<b>127,474</b>
<b>Accumulated depreciation and impairment at January 1, 2011</b>	<b>(53,044)</b>	-	-	<b>(53,044)</b>
Impairment losses recognized in profit and loss	(46,209)	-	-	(46,209)
Depreciation from continuing operations	(6,576)	-	-	(6,576)
Depreciation from discontinued operations	(418)	-	-	(418)
Sold to Appalachian Transportation & Marketing	10,216	-	-	10,216
<b>Accumulated depreciation and impairment at December 31, 2011</b>	<b>(96,031)</b>	-	-	<b>(96,031)</b>
<b>Net carrying value at December 31, 2011</b>	<b>31,444</b>	-	-	<b>31,444</b>

(in USD thousands)	US natural gas properties	Manati	Coral	Total
<b>Acquisition cost at January 1, 2010</b>	<b>121,066</b>	<b>132,363</b>	<b>71,240</b>	<b>324,669</b>
Investments	17,314	-	-	17,314
Reclassification of assets	1,327	-	-	1,327
Disposals	(1,452)	-	-	(1,452)
Foreign currency translation	-	(5,924)	-	(5,924)
Demerger of Norse Energy do Brasil S.A.	-	(126,439)	(71,240)	(197,679)
<b>Acquisition cost at December 31, 2010</b>	<b>138,255</b>	-	-	<b>138,255</b>
<b>Accumulated depreciation and impairment at January 1, 2010</b>	<b>(27,225)</b>	<b>(21,064)</b>	<b>(71,240)</b>	<b>(119,529)</b>
Impairment losses recognized in profit and loss	(15,507)	-	-	(15,507)
Depreciation expense	(10,720)	(3,318)	-	(14,038)
Disposals	408	-	-	408
Demerger of Norse Energy do Brasil S.A.	-	24,382	71,240	95,622
<b>Accumulated depreciation and impairment at December 31, 2010</b>	<b>(53,044)</b>	-	-	<b>(53,044)</b>
<b>Net carrying value at December 31, 2010</b>	<b>85,212</b>	-	-	<b>85,212</b>

## Furniture fixtures and equipment

(in USD thousands)	2011	2010
<b>Acquisition cost at January 1</b>	5,983	10,398
Investments	417	720
Disposals	(984)	(3,042)
Foreign currency translation	-	(65)
Demerger of Norse Energy do Brasil S.A.	-	(2,028)
Sold to Appalachian Marketing & Transportation	(949)	-
<b>Acquisition cost at December 31</b>	<b>4,467</b>	<b>5,983</b>
<b>Accumulated depreciation and impairment at January 1</b>	<b>(3,362)</b>	<b>(4,718)</b>
Depreciation expense from continuing operations	(609)	(939)
Depreciation expense from discontinued operations	(66)	-
Disposals	129	1,367
Demerger of Norse Energy do Brasil S.A.	-	928
Sold to Appalachian Marketing & Transportation	686	-
<b>Accumulated depreciation and impairment at December 31</b>	<b>(3,222)</b>	<b>(3,362)</b>
<b>Net carrying value at December 31</b>	<b>1,245</b>	<b>2,621</b>

## Depreciation method / rates

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

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

### **Capitalization of Borrowing Costs**

USD 0.344 million and USD 0.316 million of borrowing costs were capitalized in 2011 and 2010, respectively that were directly attributable to the construction of production assets. A weighted average of all the Group's borrowing rates, 9.04%, was used to determine the amount to be capitalized.

### **Impairment**

According to IAS 36 assets should be reviewed and tested for impairment when significant events or a change in circumstances indicate that the net book value may not be recoverable. Due to decline in gas prices in 2010 and 2011 it was determined that the assets needed to be tested for impairment. The Group has evaluated each group of assets and qualitatively assessed the need for impairment based on type, ability to convert to cash, and expected use. The recoverable amount is the higher of fair value less costs to sell and estimated value in use. Calculating the recoverable amount for the Group's production assets is very complex as there are many influencing factors and uncertainties surrounding those factors.

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

Determining the value in use of the Group's production assets is difficult using the income approach alone as the value is very sensitive to small changes to input variables (i.e. natural gas market price, WACC, drilling expenses etc) in the calculation. The impairment recorded in 2010 and 2011 was determined by giving consideration both to the income approach and market approach.

Cash flow projections need to be based on reasonable and supportable assumptions that represent management's best estimates under the income approach. The expected future cash flows of the Group are determined based upon a Reserve Reporting Process prepared by the Reservoir Engineers and approved by Senior Management. The Group engages Schlumberger Data and Consulting, a third party specialist in reservoir engineering, to evaluate the resources and provide an opinion on the reserves. The market approach compares fair value less costs to sell is the amount obtainable from the sale of an asset or cash-generating unit in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

On 15 March 2012, the Group entered into a definitive agreement to sell certain assets. These assets are included in the above schedules and in the balance sheet within field investments and equipment. The Group assessed whether the transaction provided new information of the assets fair market value at the balance sheet date and concluded to recognize an additional impairment charge in the 2011 accounts.

Following the close of the transaction in 2012 the Group no longer has any production assets and the line item Field investment and equipment in the balance sheet will be zero. Reference can be made to Note 31 Subsequent events.

### **Note 15. Goodwill and other intangible assets**

In 2006, the Group recognized goodwill of USD 5.6 million and other intangible assets of USD 0.2 million after finalizing the purchase analysis of the acquisition of Mid American Natural Resources which operated as the Group's energy marketing segment. Mid American Natural Resources was sold to Appalachian Transportation & Marketing (now known as EmKey Energy, LLC) on 31 May, 2011 (See Note 4 Discontinued operations). As a result, all goodwill and other intangible assets were removed from the books.

(in USD thousands)	Goodwill	Other intangible assets	Total
Acquisition cost at January 1, 2011	5,643	238	5,881
Sold to Appalachian Transportation & Marketing	(5,643)	(238)	(5,881)
<b>Acquisition cost at December 31, 2011</b>	-	-	-
Accumulated depreciation and impairment at January 1, 2011	-	(203)	(203)
Amortization expense	-	(10)	(10)
Sold to Appalachian Transportation & Marketing	-	213	213
<b>Accumulated amortization and impairment at December 31, 2011</b>	-	-	-
<b>Net book value December 31, 2011</b>	-	-	-

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

## Note 16. 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, and price risk. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potentially adverse effects on financial performance – more specifically the risk associated with our floating interest loans and the price for oil and gas. Derivative financial instruments are used to hedge such risk exposures.

Financial risk management is carried out by the Group's Management team under policies approved by the Board of Directors. The Board of Directors reviews these written principles for overall risk management and the policies covering specific areas, such as foreign exchange risk, interest rate risk, and 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 become due. Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, the availability of funding from an adequate amount of committed credit facilities, raising new equity, and the ability to close out market positions. In addition, management obtains funding through reserve based lending in the US and assets based lending in the US.

Note 17 Financial instruments sets out the maturity profile of the financial liabilities of the Group based on contractual undiscounted payments.

The Norwegian Public Limited Liabilities Companies Act sections 3-4 and 3-5 define the minimum equity requirements. As a general rule, the law requires that the Group has equity that is considered proper, and that the level should reflect the Group's risk-profile and the scope of the Group's activities. It is the Group's Board of Directors who sets the guidelines management is monitoring in this respect. In addition to the general requirement of the law, the Group has entered into loan agreements where there are covenants with respect to the levels of capital. Norse

Energy Holdings, Inc. must maintain an equity to capital employed ratio of at least 30% at all times after 31 March 2011 under US GAAP. Capital employed is defined as equity plus the aggregate book value of gross interest bearing debt, including any zero coupon loans and other financial instruments with the commercial effect of borrowing (i.e. guarantees and leasing commitments). Norse Energy Holdings, Inc. must also maintain a minimum equity of USD 36 million at all times after 31 March 2011. As of 31 December 2011, Norse Energy Holdings, Inc. was not in compliance with the financial covenants. Reference can be made to Note 31 Subsequent events.

### **Credit risk**

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

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

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

Note 17 Financial instruments sets out the Group's maximum risk exposure.

### **Market risk**

#### Foreign exchange risk

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

#### Interest rate risk

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

#### Commodity price risk

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

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

## Note 17. 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 16 Financial risk management for details on the Group's financial risk management policy.

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

(in USD thousands)	Carrying amount		Fair Value				Fair Value
Financial Assets	2011	2010	2011	Level 1	Level 2	Level 3	2010
Cash	3,955	24,580	3,955	3,955	-	-	24,580
Receivables:							
Trade accounts receivable (loans and receivables)	22,339	9,520	22,339	-	-	22,339	9,520
Other short-term derivatives (fair value through P/L)	2,180	3,306	2,180	-	2,180	-	3,306
Other short-term receivables (loans and receivables)	1,048	1,338	-	-	-	1,048	1,338
Other non-current assets:							
Other non-current assets (loans and receivables)	65	1,006	65	65	-	-	1,006
Other long-term derivatives (fair value through P/L)	2,160	983	2,160	-	2,160	-	983
<b>Total</b>	<b>31,747</b>	<b>40,734</b>	<b>30,699</b>	<b>4,020</b>	<b>4,340</b>	<b>23,387</b>	<b>40,734</b>
<b>Financial Liabilities</b>							
Trade accounts payable and other current liabilities	(9,161)	(24,216)	(9,161)	(9,161)	-	-	(24,216)
Interest bearing loans and borrowings (other liabilities):							
NEC02 secured bond loan (other liabilities)*	(51,951)	(56,218)	(28,390)	(28,390)	-	-	(57,534)
NEC03 secured bond loan (other liabilities)*	(3,662)	(7,075)	(1,735)	-	(1,735)	-	(7,181)
NEC04 secured bond loan (other liabilities)*	(3,647)	(3,632)	(1,915)	-	(1,915)	-	(3,527)
NEC05 secured bond loan (other liabilities)*	(14,340)	(13,996)	(7,565)	-	(7,565)	-	(13,617)
Floating rate borrowings (other liabilities)	(10,750)	(14,134)	(10,750)	(10,750)	-	-	(14,134)
Other fixed rate borrowings (other liabilities)	-	(4,233)	-	-	-	-	(3,736)
NEC J - Warrants (fair value through P/L)	-	(2,177)	-	-	-	-	(2,177)
NEC K - Warrants (fair value through P/L)	(740)	(7,099)	(740)	(740)	-	-	(7,099)
Own bonds in NEC02 (fair value through P/L)	-	983	-	-	-	-	983
Other derivatives (fair value through P/L)	-	(1,878)	-	-	-	-	(1,878)
<b>Total</b>	<b>(94,251)</b>	<b>(133,675)</b>	<b>(60,256)</b>	<b>(49,041)</b>	<b>(11,215)</b>	<b>-</b>	<b>(134,116)</b>

\*Became secured upon restructuring in June 2010.

	P&L impact	
Financial Assets	2011	2010
Other derivatives	4,036	3,223
Own bonds	(8)	188
<b>Financial Liabilities</b>		
NEC J - Warrants	2,177	5,140
NEC K - Warrants	6,359	750

### Determination of fair value

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

For all the above mentioned derivatives, the fair value is confirmed by the financial institution with which the Group has entered into the contracts.

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

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

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

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

(in USD thousands)	Carrying Amount	
	2011	2010
Exploration and production	22,337	244
Gathering and transmission	-	144
Energy marketing - w wholesale	-	6,607
Energy marketing - retail	-	2,520
Corporate	2	5
<b>Total</b>	<b>22,339</b>	<b>9,520</b>

The aging of trade receivables at the reporting date was:

(in USD thousands)	2011		2010	
	Carrying value	Impairment	Carrying value	Impairment
Current receivables	22,327	165	8,437	98
Past due 0-30 days	1	3	279	-
Past due 31-120 days	-	306	610	-
Older than 120 days	11	3,457	195	-
<b>Total</b>	<b>22,339</b>	<b>3,931</b>	<b>9,520</b>	<b>98</b>

Upon completion of the pending asset sale announced 15 March 2012 (See Note 31 Subsequent events), the Group will no longer have the ability to reduce receivables from partners related to drilling and operations with partner revenues. As a result, the Group has recorded a full valuation allowance against these receivables in the case that they are not recoverable by other means. The movement in allowance for doubtful accounts in respect of trade receivables during the year was as follows:

(in USD thousands)	2011	2010
Provision as of January 1	98	143
Sold to Appalachian Transportation & Marketing	(98)	-
Provision for bad debt during the period	3,931	-
Realized losses for the year	-	(45)
<b>Provision as of December 31</b>	<b>3,931</b>	<b>98</b>

## Liquidity risk

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

### December 31, 2011

(in USD thousands)	Total	0-1 months	1-3 months	3-12 months	1-3 years	3-5 years	> 5 years
<b>Non-derivative financial liabilities</b>							
NEC02 secured bond loan*	(63,190)	(1,843)	-	(36,327)	(25,021)	-	-
NEC03 secured bond loan	(4,119)	(126)	-	(3,992)	-	-	-
NEC04 secured bond loan *	(4,993)	-	(129)	(388)	(4,476)	-	-
NEC05 secured bond loan	(19,612)	-	(481)	(1,448)	(17,683)	-	-
US loans**	(10,750)	(10,750)	-	-	-	-	-
Accounts payable and other payments	(1,680)	(1,680)	-	-	-	-	-
<b>Total non-derivative financial liabilities</b>	<b>(104,344)</b>	<b>(14,399)</b>	<b>(610)</b>	<b>(42,155)</b>	<b>(47,180)</b>	-	-

\*Amounts shown does not reflect bond repurchases and conversions performed in January and February 2012. Reference subsequent events note 31.

\*\*Outstanding bank loan was repayed upon first installment of proceeds obtained from acreage sale in early January.

December 31, 2010

(in USD thousands)		0-1	1-3	3-12	1-3	3-5	> 5
<b>Non-derivative financial liabilities</b>	<b>Total</b>	<b>months</b>	<b>months</b>	<b>months</b>	<b>years</b>	<b>years</b>	<b>years</b>
NEC02 secured bond loan	(80,723)	(1,355)	-	(4,861)	(74,508)	-	-
NEC03 secured bond loan	(8,742)	(252)	-	(4,371)	(4,119)	-	-
NEC04 secured bond loan	(5,638)	-	(132)	(397)	(2,951)	(2,158)	-
NEC05 secured bond loan	(21,558)	-	(481)	(1,442)	(11,305)	(8,331)	-
US loans	(19,591)	(65)	(370)	(15,448)	(1,977)	(1,731)	-
Accounts payable and other payments	(6,065)	(6,065)	-	-	-	-	-
<b>Total non-derivative financial liabilities</b>	<b>(142,318)</b>	<b>(7,737)</b>	<b>(983)</b>	<b>(26,519)</b>	<b>(94,860)</b>	<b>(12,220)</b>	<b>-</b>

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

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

## Market risk

### Currency risk

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

(in USD thousands)	2011	2010
	NOK	
Cash and cash equivalents	329	291
Prepays	74	-
Trade receivables	91	90
Deposits	95	97
Bond loans	(3,647)	(3,919)
Trade payables	(223)	(213)
<b>Net balance sheet exposure</b>	<b>(3,281)</b>	<b>(3,654)</b>

A 20% strengthening or weakening of the USD against the following currencies at 31 December 2011 and 31 December 2010, respectively, 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 the Group 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 January 2012, the Group acquired from DCF Capital bonds in NEC 04 at nominal value NOK 6,800,000 in exchange for new ordinary shares in the Group. The transaction reduces the Group's exposure to currency risk.

(in USD thousands)	2011		2010	
USD vs NOK	+ 20 %	- 20 %	+ 20 %	- 20 %
Cash	(55)	82	(48)	73
Loans*	608	(911)	653	(980)
<b>Net P&amp;L effect</b>	<b>553</b>	<b>(829)</b>	<b>-</b>	<b>605</b>
<i>Net P&amp;L effect, debt repurchase effected:</i>	<i>374</i>	<i>(561)</i>		

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

### Interest rate risk

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

(in USD thousands)	2011		2010	
	+ 100 bp	- 100 bp	+ 100 bp	- 100 bp
Cash	40	(40)	256	(131)
Floating interest loans	(108)	108	(141)	141
<b>Net P&amp;L effect</b>	<b>(68)</b>	<b>68</b>	<b>-</b>	<b>115</b>

### Commodity price risk

The Group is exposed to fluctuations in the prices for oil and natural gas. The Group utilizes natural gas futures to hedge certain exposures to market price fluctuations on its anticipated sales. The derivative instruments have the

effect of locking in for specified periods the prices the Group will receive for the volumes which the derivative relates. While these derivatives are structured to reduce the Group's exposure to changes in prices associated with the derivative commodity, they also limit the benefit that might otherwise been received.

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

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

- 1,152,696 MMBtu for the period 1 January 2012 to 31 December 2012 at an average price of USD 5.13/MMBtu.
- 813,779 MMBtu for the period 1 January 2013 to 31 December 2013 at an average price of USD 5.29/MMBtu.
- 600,000 MMBtu for the period 1 January 2014 to 31 December 2014 at an average price of USD 5.21/MMBtu.
- 600,000 MMBtu for the period 1 January 2015 to 31 December 2015 at an average price of USD 5.51/MMBtu.

The Group does not qualify for hedge accounting under IAS 39 *Financial Instruments: Recognition and Measurement* for its forward contracts. When not qualifying for hedge accounting, the fair value on these contracts are charged to the income statement. Reference can be made to note 8 Operating segments.

## Note 18. Restricted cash

(in USD thousands)	2011	2010
<b>Norway</b>		
Employee withholding taxes	47	41
Other	3	3
<b>US</b>		
Cash to back letters of credit	-	678
Prepayments from joint venture partner	-	265
Other	15	19
<b>Total</b>	<b>65</b>	<b>1,006</b>

### Overdraft facilities

Norse Energy Corporation USA has a bank overdraft facility of USD 13.8 million as of 31 December 2011 and USD 14.2 million as of 31 December 2010, whereof USD 10.8 million, excluding open letters of credit outstanding of USD 3 million, and USD 14.1 million, excluding open letters of credit outstanding of USD 66 thousand, was drawn down as of 31 December 2011 and 2010, respectively.

## Note 19. Cash and cash Equivalents

(in USD thousands)	2011	2010
Cash at bank and on hand	3,955	24,580
<b>Total cash and cash equivalents</b>	<b>3,955</b>	<b>24,580</b>

Cash in transit of USD 21.7 million related to sale of acreage and overriding royalty interests, see Note 7 Sale of acreage and overriding royalty interests, received on 3 January, has been included in the line item accounts receivables and other receivables rather than cash and cash equivalents as of 31 December 2011.

The remaining cash consideration of USD 5 million was held in escrow to allow the buyers adequate time to conclude confirmatory due diligence. With the exception of certain expense reimbursements, the USD 5 million held in escrow was returned to the buyer upon completion of confirmatory due diligence.

## Note 20. Share Capital and Reserves

(in USD thousands)	Number of shares	Share capital	Share premium
Balance at December 31, 2009	388,480,981	49,007	17,627
Share capital reduction <sup>(1)</sup>	-	(24,503)	-
Share issue, February 2010	70,588,235	10,530	37,772
Share issue, April 2010	9,085,350	1,356	4,922
Demerger of Norse Energy do Brasil S.A.	-	(9,802)	(17,627)
Share issue, July & August 2010	65,000,000	3,878	13,076
<b>Balance at December 31, 2010</b>	<b>533,154,566</b>	<b>30,466</b>	<b>55,771</b>
Share issue, April 2011	210,000,000	13,946	14,525
<b>Balance at December 31, 2011</b>	<b>743,154,566</b>	<b>44,412</b>	<b>70,296</b>

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

All issued shares have a par value of NOK 0.37 and are of equal rights. NEC ASA is incorporated in Norway and the share capital is denominated in NOK. In the table above, the issued capital and share premium is translated to USD at the foreign exchange rate in effect at the time of each share issue. The Group holds 108,605 treasury shares as of 31 December 2011.

On 22 November 2011, the General Meeting approved to reduce the share capital by reduction of the par value NOK 0.36883488 to NOK 0.01. The approval has been reversed due to the significant losses in the Group.

The Group has issued 55 million warrants (the NEC-K warrants) in conjunction with the bond restructuring that occurred on 30 June 2010. The warrants give right to new ordinary shares at NOK 2.21 per share. See Note 22 Interest-bearing debt for details relating to the restructuring.

In February 2012, Norse issued 343,521,379 new shares under a Private Placement with three tranches in exchange for approximately US 22 million in bonds from the NEC02 and 04 series. The share capital after the transactions is USD 66,736 and the share premium is USD 70,630. Following this transaction the total shares outstanding are 1,086,567,340. Reference Note 31 Subsequent events.

For a listing of the largest shareholders at year end see Note 10 Shareholders equity and shareholder information in the Parent Company Financial Statements.

## Note 21. Non-controlling interests

(in USD thousands)	2011	2010
At January 1	-	30,084
Sale of minority interest in Norse Energy do Brasil S.A.	-	-
Share of loss for the year	-	(1,373)
Share of other comprehensive income for the year	-	(1,013)
Demerger of Norse Energy do Brasil S.A. (see note 4)	-	(27,698)
<b>At December 31</b>	<b>-</b>	<b>-</b>

## Note 22. Interest-bearing debt

Below is a summary of the Group's interest bearing debt as of 31 December 2011:

(in USD thousands)	Interim Rate	Effective Date	Final Rate	Effective Date	Maturity Date		Within 1 year	After 1 year	Total
					Tranche 1	Tranche 2			
NEC02 - USD 75 million bond loan	8.50% Fixed	7/1/2010	13.50% Fixed	7/15/2011	7/14/2012	7/14/2013	30,748	21,203	51,951
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	3,662	-	3,662
NEC04 - NOK 27 callable bond loan	N/A	N/A	13.50% Fixed	7/1/2010	9/29/2013	9/29/2014	-	3,647	3,647
NEC05 - USD 17.8 million bond loan	12.707% Fixed	7/1/2010	13.50% Fixed	9/26/2012	9/29/2013	9/29/2014	-	14,340	14,340
Revolving credit agreement			prime + margin	N/A	1/1/2011		10,750	-	10,750
<b>Total</b>							<b>45,160</b>	<b>39,190</b>	<b>84,350</b>

The interest rates presented in the table for NEC02, NEC03, NEC04, and NEC05 are the contractual rates, not the calculated interest rate under IFRS which is based on amortized cost.

All loans are classified as short-term debt as of 31 December 2011 as the Group was not in compliance with all financial covenants and the waivers obtained do not meet the IFRS requirements in order to keep the loans classified as long-term debt. The bondholders have granted a waiver on the financial covenants through the 20 June 2012. See further details below.

### Restructuring

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

On 4 July 2011 the Group amended its bond agreements to change the issuer from Norse Energy Holdings, Inc. to the Norse Energy Corporation ASA. The change in issuer eliminated the US requirements for withholding tax on interest payments made by a US borrower to investors who are not exempt from US withholding taxes. See further details below.

On 9 January 2012, the Group announced that DCF Capital had subscribed for a total of 53,120,000 Norse shares at a subscription price of NOK 0.40 per share. The subscription amount was settled by DCF delivering to the Group (a) bonds in NEC04 with a total nominal amount of NOK 6.8 million and (b) bonds in NEC02 with a nominal value of USD 2.4 million.

On 17 February 2012, approximately USD 18.5 million of NEC 02 bonds was tendered for conversion into 290,401,379 shares at a subscription price of NOK 0.37 per share. The new shares are issued under the power of attorney granted the Board of Directors of the Group in the Extraordinary General Meeting on 22 November 2011.

On 28 February 2012, the Group reached a refinancing agreement with its bondholders constituting a majority in each of the NEC02, NEC04 and NEC05 bond issues. The Group will issue a new convertible bond with principal amount minimum USD 21 million and maximum USD 40 million, where the minimum amount of USD 21 million will be settled by conversion of a corresponding principal amount of NEC02/04/05 bonds (pro rata). The convertible debt has a strike of NOK 0.37 per share (subject to adjustment clauses), carries a 5% coupon, is 3 years in duration, contains a call provision, and is secured by the shares in the Group's wholly owned subsidiary, Norse Energy Holding Inc.

The NEC03 bonds (par value USD 3.74 million) are being called and are being replaced by a new bond loan ("NEC06") with approximately 1 year longer duration (2013). This loan will be USD 3.74 million (the same as the par amount on the NEC03 bonds) with a coupon of Libor plus 0.5%, and it is secured with first priority in the security package for the NEC bonds. Subscribers of this bond will receive warrants to subscribe for 7.5 million shares in the Group at strike NOK 0.28 per share, with 1 year duration. Existing bondholders have pre-subscribed to this NEC06 bond which will be issued upon settlement of the call of the NEC03 bond. The bondholders have agreed to waive financial covenants in the Remedy Period, and to give any waivers required to implement and finance the restructuring proposal.

The Group is to prepay the remaining outstanding bonds, in total ~USD 35 million, at par within 20 June 2012 ("the Remedy Period"), provided it secures the necessary financing thereof through asset sales, sale of further convertible bonds to new investors, issuance of equity, other M&A activity and/or joint ventures. The Group presented the bondholders with a plan to source the ~USD 35 million on 15 March 2012 from the proceeds of the announced Herkimer sale. The refinancing is contingent upon the successful prepay of the remaining outstanding bonds.

As a consequence of the restructuring, The Group will obtain up to 3 years extended maturity for USD 21 million of bond debt. In addition the Group has obtained flexibility to deliver on a full refinancing of the remaining outstanding bond debt.

See Note 17 Financial instruments for the contractual maturities on financial liabilities, including estimated interest payments following the conversion of bonds to shares and refinancing agreement.

### **Bond loans**

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

In 2006, the Group issued USD 75 million five year bond notes. The notes are secured by, (i) a first priority pledge of the issued and outstanding capital stock of Norse Energy Holding, Inc. and its Subsidiaries, (ii) a first priority pledge in intercompany debt and (iii) guaranteed by the parent Norse Energy Corp. ASA. On 30 June 2010 the bond notes were refinanced. As a result, an USD 11.3 million pre-payment was paid in July 2010. The interest rate was increased from 6.50% to 8.50% until 14 July 2011 when the rate increased again to 13.50%. USD 31.9 million of the principal outstanding matures on 14 July 2012. The remaining USD 22.7 million matures a year later on 14 July 2013. The bonds are listed on the OSE under the ticker code "NEC02".

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

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

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

In September 2008, the Group issued NOK 27 million bond notes. The notes are secured by, (i) a first priority pledge of the issued and outstanding capital stock of Norse Energy Holdings, Inc. and its Subsidiaries, (ii) a first priority pledge in intercompany debt and (iii) guaranteed by the parent Norse Energy Corp. ASA. On 30 June 2010 the bond notes were refinanced. As a result, a NOK 4.1 million pre-payment was paid in July 2010. The interest rate increased from 11.50% to 13.50%. Half of the remaining principal outstanding, NOK 11.5 million matures on 25 September 2013. The other half matures a year later on 25 September 2014. The bonds are listed on the Oslo ABM under the ticker code "NEC04 RET".

#### USD 17.8 million bond loan ("NEC05")

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

### Warrants

Subscribers to NEC02 were allocated warrants that give the holders rights to subscribe to one new share in Norse Energy Corp. ASA at an exercise price of NOK 4.52 per share. The warrants were listed on the OSE under the ticker code "NEC J". The warrants expired in July 2011.

As a result of the restructuring 30 June 2010, subscribers to NEC02, NEC03, NEC04, and NEC05 were allocated warrants that give the holders rights to subscribe to one new share in Norse Energy Corp. ASA at an exercise price of NOK 2.21 per share. The warrants are listed on the OSE under the ticker code "NEC K".

IAS 32 requires a financial instrument that gives the holder the right to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as an equity instrument if, and only if, the entity offers the financial instrument pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. Since the warrants were not given to shareholders, IFRS requires that the warrants are recorded as a liability and not as a component of equity.

At each reporting date, any change in the fair value of the warrants is recorded in the statement of comprehensive income based on the price of the warrants. An increase in the fair value of the warrants will cause a loss to the income statement and a corresponding increase in the liability. A decrease in the warrant price will lead to a gain on the income statement and a decrease in the liability. The Group recognized gains on the NEC J warrants of USD 2.2 million and USD 5.1 million relating to changes in the fair value of the warrants in 2011 and 2010, respectively. The Group recognized a gain on the NEC K warrants of USD 6.4 million and USD 0.8 million in 2011 and 2010, respectively. These gains do not affect the amount to be repaid to the bondholders at maturity.

As of 31 December 2011, no warrants were converted to shares.

### Bond covenants

The bond covenants for NEC03, NEC04, and NEC05 are calculated off the balance sheet of the consolidated US parent Norse Energy Holdings, Inc. under US GAAP accounting guidance. At 31 December 2011 the Group is not in compliance with these financial covenants, as a result is presented as a current liability. The main covenants are as follows:

- 1) Norse Energy Holdings, Inc. 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) Norse Energy Holdings, Inc. 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 Exploration & Production 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 entity holding such interest are to be offered to redeem the Group's loans pro rata at par plus accrued interest.

#### Revolving credit agreement

The exploration and production business segment has a revolving credit agreement with a bank collateralized by certain assets with a borrowing base of USD 13.8 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. No credit was available under the agreement as of 31 December 2011. 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 31 December 2011, this business segment failed to comply with certain covenant requirements under the credit agreement which constitutes a pending default, as defined. The balance owed under the credit agreement is being presented as a current liability. On 3 January 2012, the Group paid down the full balance of its revolving credit agreement and purchased a USD 3 million certificate of deposit using proceeds from the 31 December 2011 sale of acreage and overriding royalty interests. The certificate of deposit was required to secure a letter of credit required to cover the margin risk on the natural gas hedges. On 23 February 2012, the letter was reduced to USD 1 million. The Group's ability to draw on the revolving credit agreement has been suspended until further notice.

#### Note 23. Asset retirement obligations

The Group has asset retirement obligations related to the future abandonment of natural gas wells. These obligations are accounted for in the period in which a well is acquired or drilled. The future abandonment cost is capitalized as part of the carrying amount of the asset at its discounted fair value. The liability is then accreted each period until settled or the natural gas well is sold, at which time the liability is reversed. The timing of cash outflows primarily depends on 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)	2011	2010
At 1 January	3,084	13,172
Liabilities incurred during the year	122	176
Incurred expenditures	(295)	(28)
Changes in estimated obligations	1,621	2,397
Accretion expense	131	32
Demerger of Norse Energy do Brasil S.A.	-	(12,665)
<b>At 31 December</b>	<b>4,663</b>	<b>3,084</b>
Short-term asset retirement obligations	-	-
Long-term asset retirement obligations	4,663	3,084

In June 2010, all asset retirement obligations for Brasil were demerged with Norse Energy do Brasil S.A. On 15 March 2012, the Group entered into a definitive agreement to sell certain assets. These above asset retirement

obligations are associated with these assets, and will be reversed upon settlement of the sale. Reference can be made to Note 31 Subsequent events.

## Note 24. Reserves (Unaudited)

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

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

	1P Reserves (MMBOE)	2P Reserves (MMBOE)
<b>Total as of 31 December 2011</b>	<b>7.7</b>	<b>10.7</b>

During 2011 and 2010, the Group had the following reserve development:

	2011 2P Reserves (MMBOE)	2010 2P Reserves (MMBOE)
Balance (previous SBL) as of 1 January,	7.3	42.9
Demerger of Norse Energy do Brasil S.A.	-	(35.7)
Production	(0.3)	(0.4)
New developments and discoveries	3.9	0.3
Transfers in reserve classification	-	0.1
Revision of previous estimates	(0.2)	0.1
<b>Balance (current SBL) as of 31 December</b>	<b>10.7</b>	<b>7.3</b>

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

On 15 March 2012, the Group entered into a definitive agreement to sell certain assets. The reserves associated with these assets are included in the above statement of reserves. The Group will obtain revised reserve estimates, midyear, after the close of the sale. Reference can be made to Note 31 Subsequent events.

### 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.

## Note 25. Interests in joint ventures and associates

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

During the fourth quarter of 2010, the Group announced two joint venture agreements to drill Herkimer wells. Bradford Energy Capital XXIX L.P. pre-funded its 25-50% working interest participation in up to 18 wells in the 2011 Herkimer Drilling program with USD 9 million. Stryker Energy entered into an agreement for the collective drilling of a minimum of five natural gas wells. Stryker Energy has a 50% interest in five wells.

The Herkimer drilling program remains suspended and is part of the definitive agreement to sell certain assets announced on 15 March 2012. Reference can be made to Note 31 Subsequent events.

## **Note 26. Guarantees and pledges**

Norse Energy Corporation USA has pledged nearly all of its assets as security under the credit agreement (See Revolving credit agreement in Note 22 Interest-bearing debt). The amount of eligible borrowings under the agreement is USD 10.8 million on 31 December 2011. The net book value of assets pledged under this business segment is USD 41 million. In April 2012, Norse requested released from the first lien on the loan as it was paid in full and assets pledged as collateral were included in the sales agreement. Reference Note 31 Subsequent events.

Norse Energy Corporation USA has deposits of USD 0.01 million with Pennsylvania for the plugging of wells and USD 0.02 million with Somerset Production Company for the plugging of jointly owned wells.

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

As part of the restructuring of the bond debt in 2011, the Norse Energy Corp. ASA replaced Norse Energy Holdings, Inc., a wholly owned subsidiary, as Borrower of the bond debt and assumed all rights and obligations under the loan agreements. Norse Energy Holdings, Inc. now serves as the Guarantor and assumes all rights and obligations of the Guarantor under the loan agreements.

The notes are secured by, (i) a first priority pledge of the issued and outstanding capital stock of Norse Energy Holding, Inc. and its Subsidiaries, (ii) a first priority pledge in intercompany debt and (iii) guaranteed by Norse Energy Holding, Inc. and its Subsidiaries.

## **Note 27. Other commitments and contingent liabilities**

### **Leasing of land**

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

### **Joint Venture Commitment**

On 20 December 2010, the Group entered into a Drilling Program Agreement with Bradford Drilling Associates XXIX, L.P. (Bradford) to drill 18 wells in New York State. Bradford pre-funded its contractual commitment for all 18 wells contemporaneously with execution of the agreement. The agreement calls for 18 wells to be drilled with Bradford participating for 25-50% working interest, as well as paying for well line connections, a prospect fee per location and a gathering rate for production from successful wells. As of 31 December 2011, 6 wells in the program have been drilled and successfully completed, 6 wells have been drilled, and 6 remain to be drilled. Post-completion, Bradford remains liable for its proportionate share of lease operating expenses, as well as plugging and abandoning the wells drilled under the program at the end of their economic life. The Group recently advised Bradford that approximately USD 3.5 million remained to be allocated to the program and anticipates allocating those funds when the program resumes or as needed to address ongoing program expenses. The Group has recorded this amount as a liability. Reference can be made to Note 25 Joint Ventures.

### **Firm transportation**

The Group has a contract to pay approximately USD 65,000 per month for the firm capacity reservation of 14,000 Dth / day on Dominion Transmission, Inc.'s interstate pipeline. The contract for 3,600 Dth / day expires May 2013 and the remaining capacity expires November 2014 and continues year after year until either party terminates. Following the closing of the Herkimer sale, EmKey will assume this commitment to ensure capacity is available for the production purchased.

### **Operating leases**

Operating leases relate to leases of office space. The Group rents certain office space under long-term, noncancelable operating lease agreements. Certain lease agreements contain provisions providing for increases based upon the Consumer Price Index. Additionally, the Group may be required to pay a portion of the building's operating expenses. The leases expiration dates range from 2011 to 2019 and provide for renewal options.

### Payments recognized as an expense

(in USD thousands)	2011*	2010*
Minimum lease payments	698	1,131
Contingent rentals	-	-
Sub-lease payment received	(36)	(36)
<b>Total</b>	<b>662</b>	<b>1,095</b>

\*Does not include the payments recognized as an expense of Norse Energy Supply, Inc., Norse Pipeline, LLC, & Mid American Natural Resources as they are included in discontinued operations.

### Non-cancellable operating lease commitments

(in USD thousands)	2011	2010
Not later than 1 year	594	665
Later than 1 year and not later than 5 years	1,418	1,560
Later than 5 years	400	680
<b>Total</b>	<b>2,412</b>	<b>2,905</b>

### Non-cancellable sub-lease payments expected

(in USD thousands)	2011	2010
Not later than 1 year	(12)	(36)
Later than 1 year and not later than 5 years	-	(3)
Later than 5 years	-	-
<b>Total</b>	<b>(12)</b>	<b>(39)</b>

## Note 28. Related parties transactions

The Group has certain transactions with related parties. All transactions are entered into in the ordinary course of business of the Group and the agreements pertaining to the transactions are all entered into on market terms and in accordance with provisions in the Norwegian Public Limited Companies Act. See Note 10 Shareholders equity and shareholder information in the parent company's notes for shares owned by Officers and Board directors in Norse Energy.

### 2012

The sale of the Herkimer assets in Central New York announced on 15 March 2012 to sell certain assets consisting of its operated production, gathering system, and pipeline rights of way to EmKey Resources, LLC. The buyer will also receive a three year warrant to purchase 81 million shares at a strike price of NOK 0.40 at the closing date. EmKey Resources, LLC, a privately owned company, led and partially owned by Øivind Risberg, who is currently a director and a significant shareholder of the Group and was formerly the Chief Executive Officer of Norse Energy. The sale was negotiated on an arms' length basis and the sales price was USD 36.4 million. The closing is subject to ongoing due diligence which might impact negatively on the final determination of the cash consideration. Upon close of the transaction, a commission was paid to Øivind Risberg in the amount of 1.5% of the gross purchase price, or USD 0.540 million. Reference can be made to Note 31 Subsequent events.

### 2011

In December 2011 the Group entered into a consulting contract with Richard Boughrum, the former Chief Financial Officer, for USD 15,000 to provide transition services. This agreement ended 31 December 2011.

Norse Energy leased a parking space in Oslo from the Group's former CEO and current Board Member, Øivind Risberg for NOK 1,500 per month in 2011 equaling approximately USD 3,020 in 2011. The Group also had a long-term note receivable from Øivind Risberg which was settled in 2011.

Norse Energy Holdings, Inc. signed a Letter of Intent in January 2011 to sell certain of its Midstream assets to Appalachian Transportation and Marketing LLC (Now known as EmKey Energy, LLC). The midstream assets consist of the Group's Norse Pipeline, LLC, Norse Energy Supply, Inc., and Mid-American Natural Resources, LLC (MANR). EmKey Energy is a company formed by Øivind Risberg who is currently a director and a shareholder of the Group and was formerly the Chief Executive Officer of Norse Energy. A formal agreement was reached in February 2011. The sale was completed in the second quarter of 2011. The sale was negotiated on an arms' length basis and the sales

price was USD 20.7 million. At the close of the transaction, a commission of 1.5% of the gross purchase price, or USD 0.311 million was paid to Øivind Risberg.

Following the sale of the Midstream assets to Appalachian, NEC USA has continued to use MANR as third party marketer of natural gas. NEC USA and MANR cooperatively establish the pricing for the Group's natural gas sales most often on a monthly basis. Gas volumes and pricing are typically based on market demand and market indices such as the NYMEX or the Dominion Transmission Inc. Appalachia index plus a negotiated mark up. Monthly contracts are monitored and often additional contracts are entered into given the market activity realized during the period. The agreement with MANR was made effective from October 2010 and is in effect for two years from the effective date.

## **2010**

Norse Energy leased a parking space in Oslo Øivind Risberg, for NOK 1,500 per month in 2010, equating approximately USD 2,900 in 2010.

For parts of 2010, Norse Energy Holdings, Inc. through its' subsidiary NEC USA and Vandermark provided well tending services, technical support, and other expertise to Somerset Production Company. NEC USA has an 18% ownership interest in SPC. NEC USA billed SPC for expense reimbursement, well tending fees and other miscellaneous costs. The 2010 billing for these costs was nominal. As of 31 December 2010, Norse had a net receivable of USD 119,000. All transactions are deemed to be negotiated at arm's length.

## **Note 29. Legal proceedings**

Plymouth Resources, LLC is challenging both before the New York State Department of Environmental Conservation and in Federal District Court the Wickham well integration unit being established by the DEC, questioning whether the Group is properly producing from that unit and seeking in the court proceeding USD ~19 million as essentially a punitive damage claim. Both the Group and DEC staff have disputed in the DEC proceedings Plymouth's allegations that the Group is producing from more than the Vernon shale and approved the unit. The DEC recently confirmed that the Group is producing only in the Vernon shale and approved the unit. We anticipate bringing that information into the federal proceeding seeking to have the case dismissed. As a result, no accrual has been made related to this lawsuit.

Multi-Shot is challenging the Groups withholding payment of approximately USD 600,000 for contract services not adequately performed by Multi-Shot. No accrual has been made in the financial statements related to this lawsuit.

Bradford Drilling is seeking a return of USD 7.65 million of the USD 9 million which they provided to the Group as part of a Drilling Program. The Group recently advised Bradford that approximately USD 3.5 million remained to be allocated to the program and anticipates allocating those funds when the program resumes or as needed to address ongoing program expenses. Bradford also seeks USD 10 million in punitive damages. The Group does not anticipate any liability and therefore no accrual has been made related to the lawsuit.

Stryker Energy, LLC is seeking undisclosed damages in excess of USD 1 million in connection with their participation as a joint venture partner in a Herkimer Drilling Program. The Group does not anticipate any liability and therefore no accrual has been made related to the lawsuit.

Ashcraft is seeking actual and punitive damages for an alleged trespass and damage to a foundation and some trees during geologic seismic testing by a contractor retained by the Group. The contractor is disputing the claim and is obligated to indemnify the Group and as a result no accrual has been made related to this lawsuit.

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

Pierce is seeking damages associated with the pipeline right of way alleging that pipeline was installed through an improper restricted zone. Norse maintains that approval of location and installation was granted and does not anticipate any liability. Therefore, no accrual has been made related to the lawsuit.

Norse is being sued as a part of a wrongful death action in West Virginia regarding the death of a contractor's (Braden Drilling) employee, Charles Bevins. Norse expects to be indemnified by the contractor, and has notified our insurance carrier who is now handling the matter, including taking the steps necessary to try resolve the claim. No accrual has been made related to the lawsuit.

The Group is not aware of any other governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Group is aware), during a period covering at least the previous 24

months which may have, or have had in the recent past significant effects on the Group's financial position or profitability.

### Note 30. Subsidiaries

Details of the Group's subsidiaries as of 31 December 2011 are as follows:

Company	Subsidiaries	Place of incorporation and operation	Ownership interest and voting power	
			12/31/11	12/31/10
Norse Energy Corp. ASA	Norse Energy AS	Norway	100%	100%
	Norse Energy Holdings, Inc.	USA	100%	100%
Norse Energy Holdings, Inc.	Norse Energy Corp. USA	USA	100%	100%
	Strategic Energy Corp. (dormant)	USA	100%	100%
Norse Energy Corp. USA	Vandermark Exploration, Inc.	USA	100%	100%
Strategic Energy Corp. (dormant)	MariCo Oil & Gas Corp. (dormant)	USA	50%	50%

### Note 31. Subsequent events

#### Sale of acreage and overriding royalty interests

On 31 December 2011 Norse entered into a definitive agreement to sell acreage and overriding royalty interests for cash consideration of USD 26.7 million to undisclosed and unrelated buyers.

Norse is selling leases and fee interests totaling approximately 18,100 acres in Central New York and overriding royalty interests of (i) 2.5% on 24,300 acres that are held by production ("HBP") in Central New York; (ii) 3.75% on 84,000 non-HBP leased and fee acres located in Central New York; and (iii) 6.25% on 33,000 acres located in Western New York.

Not included in this transaction are the Group's proved reserves, including those reserves in the Herkimer Formation.

On 3 January 2012, the Group received USD 21.7 million. With the exception of expense reimbursements, the USD 5 million held in escrow was returned to the buyer upon completion of confirmatory due diligence.

#### Conversion of bonds to new shares

On 9 January 2012, Norse announced that DCF Capital had subscribed for a total of 53,120,000 New Shares in the Group with a nominal value of NOK 0.36883488 per share at a subscription price of NOK 0.40 per share giving a total subscription amount of NOK 21,248,000.00 (the "First Placement"). The subscription amount was settled by DCF delivering to the Group (a) bonds in NEC04 with a total nominal amount of NOK 6,800,000 and (b) bonds in NEC02 with a nominal value of USD 2,400,000. The new shares under the First Placement were issued and registered in the VPS on 12 January 2012.

On 26 January 2012, Norse announced that Pioneer Global High Yield Fund, Pioneer High Income Trust and Pioneer Funds – Global High Yield (Lux) (the "Pioneer Funds") would subscribe for a total of 21,195,456 New Shares in the Company with a nominal value of NOK 0.36883488 per share at a subscription price of NOK 0.37 per share giving a total subscription amount of NOK 7,842,319 (the "Second Placement"). The subscription amount will be settled by the Pioneer Funds delivering to the Company bonds in NEC 02. The New Shares under the Second Placement have been issued and registered with the VPS. On 26 January 2012, Norse further announced that it would offer to holders of bonds to repurchase the bonds at par value, with settlement through the issue of New Shares in the Company, where the subscription price was to be determined by a book building process. The Company further announced that the Pioneer Funds had pre-subscribed for the repurchase of bonds by the Company with a nominal value of USD 11,123,587 against the issue of New Shares at a subscription price of NOK 0.37 per share.

On 30 January 2012, Norse announced that the book-building was successfully completed and that approximately USD 18.5 million of bonds had been tendered, including the subscription by the Pioneer Funds in the Second Placement and the further pre-subscription by the Pioneer Funds. On 17 February 2012, Norse further announced that the Company's Board of Directors had resolved to increase the Company's share capital by NOK 99,292,534.30 through an issue of 269,205,923 New Shares, each with a nominal value of NOK 0.36883488 at a subscription price of NOK 0.37 per share, giving a total subscription amount of NOK 99,606,191.51 to be settled against repurchase of bonds at par (nominal) value (the "Third Placement").

The New Shares are issued under the power of attorney granted the Board of Directors of Norse in the Extraordinary General Meeting on 22 November 2011. For additional information refer to the Prospectus dated 17 February 2012 on the Group's website.

### Bond refinancing

The Group executed the conversion of a total of USD 21 million of bond debt to shareholder equity at a significant premium to market price per share.

On 28 February 2012, the Group announced it had reached a refinancing agreement with its bondholders constituting a majority in each of the NEC 02, 04 and 05 bond issues. The Group will issue new convertible bonds with principal amount minimum USD 21 million and maximum USD 40 million, where the minimum amount of USD 21 million will be settled by conversion of a corresponding principal amount of NEC02/04/05 bonds (pro rata). The convertible debt has a strike of NOK 0.37 per share (subject to adjustment clauses), carries a 5% coupon, is 3 years in duration, contains a call provision, and is secured by the shares in the Groups wholly owned subsidiary, Norse Energy Holding Inc. On April 10 the Group completed the issuance of new convertible bonds with principal amount of USD 21 million which has been settled by conversion of a corresponding principal amount of NEC02/04/05 bonds (pro rata). The refinancing is contingent upon the successful prepay of the remaining outstanding bonds, in total USD 34.5 million, at par by 20 June 2012 provided it secures the necessary financing thereof through asset sales or other means.

On 10 April 2012 the Group announced that the NEC03 bonds (par value USD 3.74 million) had been called and replaced by a new bond loan ("NEC06") with approximately 1 year longer duration (2013). Upon issue of NEC06 the bondholders will receive 750,000 warrants to subscribe for 7.5 million shares in the Company at strike NOK 0.28 per share, with 1 year duration.

The below table below shows the nominal amounts of bond principal payable following the asset sale, conversions, and debt refinancing.

(in USD millions)

	Old	New
2012	35.6	56.5 *
2013	32.2	-
2014	9.4	-
2015	-	21.0
After		
<b>Total Principal Payments</b>	<b>77.2</b>	<b>77.5</b>

\*USD 22 million has been paid down through equity swaps in February 2012 and the USD 21 million was refinanced in April 2012 and moved out till 2015 per above. The remaining USD 34.5 million will be settled by 20 June 2012 per the refinancing agreement reached on 28 February 2012 with the proceeds from the Herkimer sale.

### Sale of Herkimer Assets

On 15 March 2012 Norse announced that it has entered into a definitive agreement to sell its operated production, ~23,000 held by production ("HBP") acres (in which Norse retains a 37.5% working interest in the deep Utica formation), gathering system, and pipeline rights of way in Central New York. The buyer will also receive a three year warrant to purchase 81 million shares at a strike price of NOK 0.40 at the closing date. Total cash consideration to Norse is USD 37 million less purchase price adjustments. The Company assessed whether the transaction provided new information on the assets fair market value at the balance sheet date and an additional impairment charge of USD 15.9 million was included in the 2011 accounts resulting in a total impairment charge for 2011 of USD 46.2 million. Following the 15 March 2012 transaction, the line item Field investment and equipment in the balance sheet will be zero. The transaction was closed on 16 May 2012 with proceeds of approximately USD 34.5 million debiting the Group's account. The closing is subject to ongoing due diligence which might impact negatively on the final determination of the cash consideration.

The buyer is EmKey Resources, LLC, a privately owned company, led and partially owned by Øivind Risberg, a current Norse board member and former Norse Energy CEO.

In connection with this transaction, the buyer is committed to construct a pipeline capable of transporting a minimum of 90,000 Mcf/day, once Norse so nominates for firm transportation.

### Other

An Extraordinary General Meeting of the Shareholders was held on 30 March 2012 and 16 April 2012 during which the following proposals were approved:

**30 March 2012 EGM**

- Proposal for authorization to the Board of Directors to increase share capital by up to NOK 200 million, in accordance with the debt restructuring plan announced on 28 February 2012
- Proposal for issuance of warrants to investors in a new bond loan (NEC 06)
- Proposal for amendment of Articles of Association by reverse split of shares 10-1

**16 April 2012 EGM**

- Proposal to sell Herkimer Assets to EmKey Resources, LLC.
- Proposal to issue warrants to EmKey Resources, LLC to purchase 81 million new shares in the Company at subscription price of NOK .040 per share

## **Note 32. Going concern**

The annual financial statements have been prepared pursuant to the going concern assumption, in accordance with section 3-3 of the Norwegian Accounting Act. This assumption is based upon the successful outcome of the financial challenges facing the Company as described in this report. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

The Group faced challenges related to liquidity and bank and bond covenant compliance as of 31 December 2011. The Group's cash balance was approximately USD 4 million on 31 December 2011.

As a result of the declining commodity price for natural gas, the Group is not in compliance with the equity covenants at the balance sheet date. As part of the refinancing agreement entered into on 28 February 2012, the bondholders have granted a waiver on the financial covenants through 20 June 2012.

Approximately USD 21.7 million of cash was received on 3 January 2012 from an asset sale. See Note 7 Sale of acreage and overriding royalty interests and Note 31 Subsequent events. Upon receipt, the Group paid down the full balance of its revolving credit agreement of USD 10.75 million and purchased a USD 3 million letter of credit with Amegy bank.

On 28 February 2012, the Group announced it had reached a refinancing agreement with its bondholders constituting a majority in each of the NEC 02, 04 and 05 bond issues. The Group issued new convertible bonds with principal amount of minimum USD 21 million and maximum USD 40 million, where the minimum amount of USD 21 million was settled by conversion of a corresponding principal amount of NEC02/04/05 bonds (pro rata). The convertible debt has a strike of NOK 0.37 per share (subject to adjustment clauses), carries a 5% coupon, is 3 years in duration, contains a call provision, and is secured by the shares in the Group's wholly owned subsidiary, Norse Energy Holdings Inc.

The Group is to prepay the remaining outstanding bonds, in total ~USD 35 million, at par within 20 June 2012, provided it secures the necessary financing thereof through asset sales, sale of further convertible bonds to new investors, issuance of equity, other M&A activity and/or joint ventures. The Group presented the bondholders with a plan to source the ~USD 35 million prepay on 15 March 2012. The refinancing is contingent upon the successful prepay of the remaining outstanding bonds.

The Group announced on 10 April 2012 the following transactions:

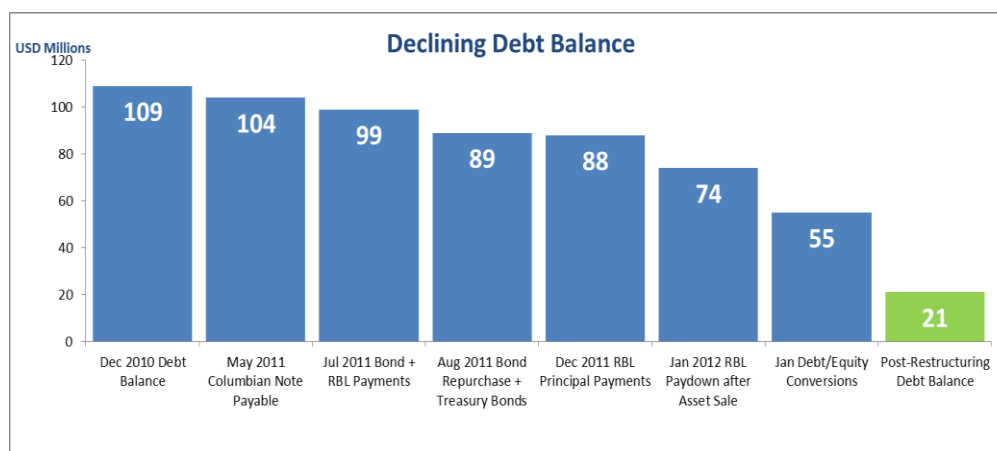
- The NEC03 bonds (par value USD 3.74 million) were called and replaced by a new bond loan ("NEC06"). Upon issue of NEC06 the bondholders received 750,000 warrants to subscribe for 7.5 million shares in the Company at strike NOK 0.28 per share, with 1 year duration. The NEC06 bond loan is expected to be paid in full as part of the ~USD 35 million prepay announced 15 March 2012.
- Issuance of new convertible bonds with principal amount of USD 21 million which has been settled by conversion of a corresponding principal amount of NEC02/04/05 bonds (pro rata).

The Group's interest bearing debt balance has declined from ~USD 109 million to ~USD 55 million, and upon closing of the Herkimer transaction, the Group's interest bearing debt balance is projected to be further reduced to ~USD 21 million. The following transaction summary explains the decline:

- May 2011 - ~USD 4.2 million Columbia Note Payable was paid in full
- July 2011 - ~USD 4 million NEC 03 Scheduled Principal Payment
- July 2011 - ~USD 1 million paid to reduce Reserve Based Lending revolver
- August 2011 - ~USD 8 million bond debt purchased at a discount to par in open market transactions
- August 2011 - ~USD 2 million of treasury bonds were retired at a gain.
- December 2011 - ~USD 1 million paid to reduce Reserve Based Lending Revolver

- January 2012 - ~USD 11 million paid from the proceeds of the December sale of assets. The revolver was paid in full as a result.
- January - February 2012 - ~USD 20 million converted from bond debt to equity in a series of transactions as described in Note 22 Interest-bearing debt.

May 2012 - ~USD 35 million bond debt is projected to be repaid from the proceeds of the announced Herkimer sale. Reference can be made to Note 31 Subsequent events.



The Group incurred a net loss of USD 80,204 million (parent: net loss of NOK 495 million) during the year ended December 31, 2011 and, as of that date, the Group's current liabilities exceeded its total assets by USD 21,793 million. The Group's equity was negative as at 31 December 2011. The Group and the parent are dependent on new equity or other financing in order to continue as a going concern. The Group's cash position was ~USD 4.5 at end of April 2012 and is just sufficient to finance operations into the third quarter of 2012. Following the sale of the Herkimer the Group has no producing assets providing cash inflows and new funding is required to conduct its operations.

In order to address the Group's liquidity requirements going forward, the following alternatives are under consideration:

- additional asset sales
- joint ventures with industry partners
- issuance of additional equity
- issuance of additional debt
- further cost reduction measures

The Group cannot guarantee that it will be able to conduct the intended asset sales or obtain the necessary debt or equity financing, as required to fund current operations and meet maturing debt liabilities. Even if such financing is obtained, no assurance can be given that such financing will be on terms acceptable to the Group. A failure to obtain required financing in time will materially adversely affect the Group's business, operations and financial condition.

On 8 July 2011, the New York State Department of Environmental Conservation (DEC) issued the preliminary draft Supplemental Generic Environmental Impact Statement (SGEIS). The revised draft SGEIS was issued by the DEC on 7 September 2011 followed by proposed regulations to implement the SGEIS. The public comment period for both expired on 11 January 2012. A review of the comments received during the public comment period will be conducted before issuance of the final SGEIS and corresponding regulations. 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 Shale, Utica Shale, and other shale 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 Group's assets if they were to be offered for sale.

As described above the Group's continued operation is dependent on the successful outcome of the financial and regulatory challenges facing the Group.



# PARENT COMPANY FINANCIAL STATEMENTS

## Parent Company Income Statement

(in NOK thousands)

	Note	2011	2010 <sup>1</sup>
<b>Operating income</b>			
Operating revenues	2	1,341	1,840
<b>Total operating income</b>		<b>1,341</b>	<b>1,840</b>
<b>Operating expenses</b>			
General and administrative expenses	3	22,922	40,354
Depreciation and impairment	4	229	67
<b>Total operating expenses</b>		<b>23,151</b>	<b>40,421</b>
<b>Operating profit (loss)</b>		<b>(21,810)</b>	<b>(38,581)</b>
<b>Financial items</b>			
Interest received from subsidiaries	2	32,926	34,774
Other interest income		299	1,236
Other financial income	6	61,333	1,227
Currency gain/loss		(12,349)	(4,280)
Interest expence to subsidiaries		(24)	(330)
Interest costs	5	(30,108)	(24,473)
Impairment of subsidiary	8	(523,622)	-
Other financial costs	6	(1,966)	(71,025)
<b>Net financial items</b>		<b>(473,510)</b>	<b>(62,870)</b>
<b>Result before income tax</b>		<b>(495,320)</b>	<b>(101,451)</b>
Income tax	7	-	-
<b>Result for the year</b>		<b>(495,320)</b>	<b>(101,451)</b>

## Parent Company Balance Sheet

(in NOK thousands)	Note	2011	2010
<b>ASSETS</b>			
<b>Non-current assets</b>			
Furniture, fixtures and office equipment	4	426	528
Investment in subsidiaries	8	232,836	569,528
Bonds	5	-	5,913
<b>Total non-current assets</b>		<b>233,262</b>	<b>575,969</b>
<b>Current assets</b>			
Loan to subsidiaries	2	441,064	3,279
Other current assets		1,559	1,041
Cash and cash equivalents	9	14,070	39,381
<b>Total current assets</b>		<b>456,693</b>	<b>43,701</b>
<b>TOTAL ASSETS</b>		<b>689,955</b>	<b>619,670</b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
<b>Paid-in capital</b>			
Share capital	10	274,100	196,645
Share premium reserve	10	413,389	332,722
Other paid-in capital	10	94,822	94,822
Treasury shares	10	(92)	(92)
<b>Total paid-in capital</b>		<b>782,219</b>	<b>624,097</b>
<b>Retained earnings</b>			
Other equity	10	(588,999)	(94,526)
<b>Total retained earnings</b>		<b>(588,999)</b>	<b>(94,526)</b>
<b>TOTAL EQUITY</b>	<b>10</b>	<b>193,220</b>	<b>529,571</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable		85	854
Bond loans	5	463,206	-
Warrants	5	-	79,370
Loans from subsidiaries	2	21,241	-
Other current liabilities	3	12,203	9,875
<b>Total current liabilities</b>		<b>496,735</b>	<b>90,099</b>
<b>TOTAL LIABILITIES</b>		<b>496,735</b>	<b>90,099</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>689,955</b>	<b>619,670</b>

The Board of Directors

Oslo, 21 May 2012  
Norse Energy Corp. ASA



Cecelie Amdahl  
*Chairperson of the Board*



Bjarte Bruheim  
*Director*



Elin Kartjell  
*Director*



Frank Pici  
*Director*



Øivind Risberg  
*Director*



Mark Dice  
*President and CEO*

## Parent Company Statement of Cash Flows

(in NOK thousands)	2011	2010
<b>Cash flows from operating activities</b>		
Net profit (loss) for the year	(495,320)	(101,451)
Depreciation and impairment	229	67
Employee options exercised	848	(161)
Loss on disposal of shares	-	61,949
Write down of shares and receivables	523,622	-
Gain on purchase and extinguishment of bonds	(17,121)	-
Gain related to Warrants	(44,212)	-
Change in other assets and liabilities	(107)	6,351
<b>Net cash flows from operating activities</b>	<b>(32,062)</b>	<b>(33,245)</b>
<b>Cash flows from investing activities</b>		
Increase in loans to subsidiaries	(75,616)	(328,336)
Investments in office equipment	(127)	(595)
Investment in Panoro Energy ASA	-	(111,000)
Proceeds from sale of shares in Panoro Energy ASA	-	49,051
Cash transferred as part of demerger	-	(27,923)
Investment in subsidiaries	-	1,020
<b>Net cash flows from investing activities</b>	<b>(75,743)</b>	<b>(417,783)</b>
<b>Cash flows from financing activities</b>		
Repayment of long-term debt	(49,609)	-
Interests paid	(19,403)	(42,938)
Net proceeds from issuance of shares	158,122	426,809
<b>Net cash flows from financing activities</b>	<b>89,110</b>	<b>383,871</b>
<b>Net increase in cash and cash equivalents</b>	<b>(18,696)</b>	<b>(67,157)</b>
Cash and cash equivalents at the beginning of the year	39,381	101,535
Effects of exchange rate changes on the balance of cash held in foreign currencies	(6,615)	5,003
<b>Cash and cash equivalents at the end of the year</b>	<b>14,070</b>	<b>39,381</b>



# NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

## Note 1. Accounting principles

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

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

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

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

Bond loans are booked net of the amortized transaction costs and transaction costs are amortized over the loan period. Warrants are recognized as a liability, together with the bond loans.

## Note 2. Transactions and balances with subsidiaries

Operating revenues relate to administrative services provided to subsidiaries.

On 4 July 2011 the Group amended its bond agreements to change the issuer from Norse Energy Holdings, Inc. to the Company. Face value of the bonds transferred was USD 90.6 million (NOK 488.3 million). The change in issuer eliminated the US requirements for withholding tax on interest payments made by a US borrower to investors who are not exempt from US withholding taxes. As of 31 December the Company had a receivable to Norse Energy Holdings, Inc. of USD 73.6 million (NOK 441.1 million) and a payable of USD 3.5 million (NOK 21.2 million).

As of 31 December 2010, following the demerger of the Brazilian activity (see Note 16 Financial Risk Management), transfer of the bond debt to Norse Energy Holdings, Inc. and conversion of loan to equity in Norse Energy Holdings, Inc., the Company had a receivable to Norse Energy Holdings, Inc. of USD 0.6 million (NOK 3.3 million)

During 2011 Naftex was dissolved. Cost incurred to dissolve the entity has been charged to general and administrative expenses with NOK 1.4 million. Loans to Naftex at year end 2010 were written off, as recoverability was uncertain. Loans to Norse Energy AS at year end 2011 and 2010 were written off, as recoverability was uncertain.

## Note 3. General and administrative expenses

### Salaries

The Company had no employees at 31 December 2011, and an average of 0.92 employees during the year, compared to 1 employee at 31 December 2010 and an average of 3.25 employees during 2010. Wages and salaries are included in general and administrative expenses.

For details relating to remuneration to management, refer to Note 9 General and administrative expense 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 23 May 2006 and 20 May 2008. As of 31 December 2011, 10.8 million options have been granted (1 million granted and 4.4 million expired during 2011) of which 9.3 million options have vested. All options under the plan will be settled in shares.

For further details on the programs, see Note 10 Share-based payment plans in the consolidated financial statements.

## Employee related expenses

(in NOK thousands)	2011	2010
Wages	634	9,969
Employer's contribution	103	2,242
Pension costs	55	100
Other compensation	85	2,109
<b>Total</b>	<b>877</b>	<b>16,189</b>

Wages for 2010 include severance pay to the former CEO, who as of 22 November 2011 is a board member of the Company. The amount included in short term liability as of 31 December 2010 was NOK 8.6 million including social security.

## Board of Directors remuneration

(in NOK thousands)	2011	2010
Cecilie Amdahl, Chairman from November 22	-	-
Dag Erik Rasmussen, Chairman until November 22	854	350
Other board members	1,880	1,200
<b>Total</b>	<b>2,733</b>	<b>1,550</b>

## Pensions

The Company was required to have an occupational pension scheme in accordance with the Norwegian law on required occupational pension ("Lov om obligatorisk tjenestepensjon"). The Company has a defined contribution scheme, complying with the requirements. Expenses related to the scheme of NOK 55 Thousand and NOK 100 thousand was incurred during 2011 and 2010, respectively.

## Auditor

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

(in NOK thousands)	2011	2010
<b>Deloitte</b>		
Statutory audit	660	683
Audit related services*	775	721
Tax services	58	41
Other	-	-
<b>Total</b>	<b>1,493</b>	<b>1,445</b>

\* Work related to prospectus, bond transfer

## Note 4. Furniture, fixtures and office equipment

(in NOK thousands)	Furniture and fixtures	IT and office equipment	Total
Acquisition cost at 1 January 2011	573	21	595
Investments	-	127	127
Acquisition cost at 31 December 2011	573	149	722
Accumulated depreciation and impairment at 1 January 2011	(62)	(5)	(67)
Depreciation	(190)	(39)	(229)
Accumulated depreciation at 31 December 2011	(252)	(43)	(296)
Accumulated impairment at 31 December 2011	-	-	-
<b>Net carrying value at 31 December 2011</b>	<b>321</b>	<b>105</b>	<b>426</b>
Depreciation for the year	(190)	(39)	(229)
Impairment loss for the year	-	-	-

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

## Note 5. Bond loans

(in NOK thousands)	Interim Rate	Effective date	Final Rate	Effective date	Maturity date				Total
					Tranche 1	Tranche 2	Within 1 year	After 1 year	
NEC 02 USD 75 million Bond Loan	8.5 %	7/1/2010	13.5 %	7/15/2011	7/14/2012	7/14/2013	191,768	135,406	327,174
NEC 03 USD 8,8 million Bond Loan	11.5 %	7/1/2010	13.5 %	7/7/2010	7/6/2011	7/6/2012	22,413	-	22,413
NEC 04 NOK 27 callable bond loan	N/A	NA	13.5 %	7/1/2010	9/25/2013	9/25/2014	-	22,952	22,952
NEC 05 USD 17,8 million Bond Loan	12.707 %	7/1/2010	13.5 %	9/26/2012	9/25/2013	9/25/2014	-	90,667	90,667
Total							214,180	249,025	463,206

All interest rates are fixed

### 2011

#### Bond Agreement Amendment

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

#### Refinancing

See Note 14 Subsequent events related to conversion of bonds to equity, refinancing of bonds and sale of assets to amongst other make bond down payments.

#### Bond Covenants

The bond covenants for NEC 03, NEC 04, and NEC 05 are calculated off the balance sheet of the consolidated US subsidiary Norse Energy Holdings, Inc. under US GAAP accounting guidance. At 31 December 2011 the company was not in compliance with these covenants. As a result all of the interest bearing debt is presented as a current liability. As a condition for the bond refinancing announced on 28 February 2012 (see Note 14 Subsequent events), the financial covenants have been waived.

The main financial covenants are as follows:

- 1) Norse Energy Holdings, Inc. must maintain an equity to capital employed ratio of at least 30% at all times after 30 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 lease commitments).
- 2) Norse Energy Holdings, Inc. must maintain a minimum equity of USD 36 millions at all times after 31 March 2011.
- 3) There is a USD 55 million maximum on Reserve Based Lending unless backed by new equity or repayment of existing debt.

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

As part of the agreement with the bond holders, the Subsidiary Norse Energy Holding Inc. has guaranteed the debt.

As of December 2011 accrued interest of MNOK 10.4 has been included as other current liabilities.

For further details on the bonds, see Note 22 Interest-bearing debt in the consolidated financial statements.

## **2010**

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

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

Further, as a result of the restructuring, bondholders were allocated additional warrants that give the holders rights to subscribe to one new share in the Company at an exercise price of NOK 2.21 per share. The warrants are listed on the OSE under the ticker code "NEC K".

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

The Company holds bonds of Norse Energy Holdings, Inc totaling USD 1.1 million (NOK 5.9 million) as of 31 December 2010.

For further details on the bonds, see Note 22 Interest-bearing debt in the consolidated financial statements.

## **Note 6. Other financial income and costs**

(in NOK thousands)	<b>2011</b>	<b>2010</b>
Gain on warrants/transfer of bonds	44,212	-
Gain on purchase and extinguishment of bonds	17,121	-
Mark to market treasury bonds	-	1,227
Other	-	-
<b>Total</b>	<b>61,333</b>	<b>1,227</b>

Other financial costs are specified as follows:

(in NOK thousands)	<b>2011</b>	<b>2010</b>
Amortization of capitalized loan transaction costs	-	7,875
VPS charges	1,205	911
Loss on disposal of shares in Panoro Energy ASA	-	61,949
Write down shares in Norse Energy AS	-	100
Other	762	190
<b>Total</b>	<b>1,966</b>	<b>71,025</b>

Expiration of the NEC J warrants and transfer of bonds from Norse Energy Holdings Inc. to the Company resulted in a gain of NOK 44.2 million.

31 August 2011, the Company purchased and extinguished treasury bonds resulting in a gain of NOK 17 million. Nominal value of the bonds extinguished was USD 8 million (NOK 49 million) plus the treasury bonds held by NEC ASA.

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

As part of the restructuring of the bond debt, remaining capitalized loan transaction costs were charged as cost in 2010.

## Note 7. Income tax

Income tax expense for the year:

(in NOK thousands)	2011	2010
Tax payable	-	-
Change in deferred tax	-	-
<b>Income tax expense</b>	<b>-</b>	<b>-</b>

Specification of the basis for tax payable:

(in NOK thousands)	2011	2010
Result for the year	(495,320)	(101,451)
+ Effect of permanent differences	513,745	40,092
+ Effect of temporary differences	(58,700)	88,059
<b>Basis for tax payable in P/L</b>	<b>(40,275)</b>	<b>26,700</b>
Utilization loss carry forward	-	(26,700)
Transferred to loss carry forward	40,275	-
<b>Basis for tax payable in B/S</b>	<b>-</b>	<b>-</b>

Specification of deferred tax:

(in NOK thousands)	2011	2010
Furniture, fixtures and office equipment	(56)	52
Accounts receivable	-	(14,428)
Financial instruments	(35,158)	(79,370)
Pensions and other accruals	(607)	(775)
Tax losses carried forward	(539,800)	(499,525)
Basis for calculating deferred tax asset	(575,622)	(594,046)
Calculated deferred tax asset (28%)	161,174	166,333
Deferred tax asset allowance	(161,174)	(166,333)
<b>Deferred tax asset recognized in the balance sheet</b>	<b>-</b>	<b>-</b>

Specification change in loss carried forward

(in NOK thousands)	2011	2010
Opening balance	(499,525)	(882,280)
Correction to the 2009 tax return	-	5,337
Demerger 40% of loss carry forward	-	350,778
Current utilization	-	26,640
Loss carry forward current year	(40,275)	-
<b>Loss carry forward</b>	<b>(539,801)</b>	<b>(499,525)</b>

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

## Note 8. Investment in subsidiaries

Investments in subsidiaries are booked at the lower of cost and fair market value. As of 31 December 2011, the holdings in subsidiaries consist of the following.

in NOK thousands, unless otherwise indicated

<b>Company</b>	<b>Headquarters</b>	<b>Ownership interest and voting rights</b>	<b>Carrying value</b>
Norse Energy Holdings, Inc.	Buffalo, NY, USA	100%	232,836
Norse Energy AS	Oslo, Norway	100%	-
<b>Total</b>			<b>232,836</b>

The investment in Norse Energy Corp. USA was increased by NOK 174 million in 2011 by converting debt to equity. In addition an impairment charge of NOK 523.6 has been recognized. The impairment charge has been calculated by comparing book value of equity in the Company to market capitalization as of December 2011.

The 100% owned subsidiary Naftex Energy Corporation was dissolved in 2011.

## Note 9. Cash and cash equivalents

Restricted cash related to tax withheld from employees amounted to NOK 0.3 million and NOK 0.2 million as of 31 December 2011 and 2010 respectively.

One bank account with a NOK 0 balance has been pledged as security for debt to the bank. As of December 2011, the company has no debt to the bank.

## Note 10. Shareholders equity and shareholder information

Nominal share capital in the parent company at 31 December 2011 amounted to NOK 274,101,325.16 consisting of 743,154,566 shares at a par value of NOK 0.37. All issued shares are fully paid. Each share has one vote.

The table below shows the changes in equity in the Company during 2010 and 2011:

<small>(in NOK thousands)</small>	<b>Share capital</b>	<b>Share premium reserve</b>	<b>Other paid-in capital</b>	<b>Treasury shares</b>	<b>Other equity</b>	<b>Total</b>
Equity at 1 January 2010	341,863	101,382	295,605	(92)	7,086	<b>745,844</b>
Share issue	94,087	355,026	-	-	-	<b>449,113</b>
Share issue costs (net of tax effect)	-	(22,304)	-	-	-	<b>(22,304)</b>
Transfer share capital to other equity	(170,932)	-	170,932	-	-	-
Demerger	(68,373)	(101,382)	(371,715)	-	-	<b>(541,470)</b>
Employee stock option expense	-	-	-	-	(161)	<b>(161)</b>
Result for the year	-	-	-	-	(101,451)	<b>(101,451)</b>
<b>Equity at 31 December 2010</b>	<b>196,645</b>	<b>332,722</b>	<b>94,822</b>	<b>(92)</b>	<b>(94,526)</b>	<b>529,571</b>
Share issue	77,455	90,545	-	-	-	<b>168,000</b>
Share issue costs (net of tax effect)	-	(9,878)	-	-	-	<b>(9,878)</b>
Employee stock option expense	-	-	-	-	848	<b>848</b>
Result for the year	-	-	-	-	(495,320)	<b>(495,320)</b>
<b>Equity at 31 December 2011</b>	<b>274,100</b>	<b>413,389</b>	<b>94,822</b>	<b>(92)</b>	<b>(588,999)</b>	<b>193,220</b>

On 23 November the General Meeting approved to reduce the share capital with NOK 266,669,779.51 by reduction of the par value with NOK 0.36 to NOK 0.1. The approval has been reversed due to the significant losses in the Company.

The Company holds 108,605 treasury shares as of 31 December 2011.

The 75 million warrants the Company issued in connection with the USD 75 million bond loan, where the warrants gave the right to new ordinary shares at NOK 4.52 per share, expired in 2011.

The Company issued 55 million Warrants in conjunction with the bond restructuring that occurred on 30 June 2010. The warrants give right to new ordinary shares at 2.21 per share. The Warrants expire 16 June 2015.

## Subsequent events – reference note 14 for further information

In January the Company converted bonds to equity resulting in a capital increase of NOK 118.9 million. In March the Company disclosed that the Group had entered into a definitive agreement to sell its operated production. As part of the asset sale, the Company shall issue warrants with a 3 year maturity to subscribe for up to 81 million shares at a subscription price of 0.40 per share.

In April the Company disclosed that a new convertible bond of NOK 120 million was issued. The convertible bonds were settled by conversion of a corresponding principal amount of NEC02/04/05 bonds (pro rata).

In April the Company announced that the NEC03 bonds (par value USD 3.74 million) had been called and replaced by a new bond loan ("NEC06") with approximately 1 year longer duration (2013). As part of the transaction, the holders of the NEC 03 bonds received warrants with a one year maturity to subscribe for 7.5 million new shares at a subscription price of NOK 0.28 per share.

On March 30, the General Meeting voted in favor of a consolidation of the Company's shares whereby 10 existing shares with a nominal value of NOK 0.36883488 each shall be replaced by 1 new share with par value NOK 3.6883488.

### Ownership structure

The Company had 5,684 shareholders at 31 December 2011. The twenty largest shareholders at year-end were:

Shareholder	Number of shares	Holding in %
1 EUROCLEAR BANK S.A./N.V. ('BA')	21,847,214	2.94%
2 ODIN OFFSHORE	21,500,000	2.89%
3 CSPN HOLDING AS	15,800,000	2.13%
4 NORDNET BANK AB	14,650,584	1.97%
5 UBS AG, LONDON BRANCH	13,399,509	1.80%
6 MP PENSJON PK	12,689,600	1.71%
7 BRUHEIM (1)	12,000,000	1.61%
8 NICON HOLDING AS	9,000,000	1.21%
9 DANSKE BANK A/S	8,689,796	1.17%
10 WESTCAP A/S	7,600,000	1.02%
11 FARSTAD	7,067,716	0.95%
12 THERMOTECH INVEST AS	7,000,000	0.94%
13 SOLODDEN AS (2)	6,561,394	0.88%
14 MEGARON AS	6,000,000	0.81%
15 S FJORD INVEST AS	6,000,000	0.81%
16 CITIBANK NA NEW YORK BRANCH	5,690,990	0.77%
17 WILDING	5,600,000	0.75%
18 NORDEA BANK DENMARK AS	5,513,603	0.74%
19 AVANZA BANK AB	5,366,956	0.72%
20 UBS AG,LONDON BRANCH	5,330,219	0.72%

<b>Top 20 shareholders</b>	<b>197,307,581</b>	<b>26.55%</b>
Other shareholders	545,846,985	73.45%

<b>Total shares</b>	<b>743,154,566</b>	<b>100.00%</b>
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(1) Shares controlled by Bjarte Bruheim, Director, Norse Energy Corp ASA

(2) Shares controlled by Øivind Risberg, Director, Norse Energy Corp ASA

Shares owned by the CEO, CFO, and board members per 31 December 2011

Shareholder	Position	Number of shares	% of total
Bjarte Bruheim	Director, Norse Energy Corp ASA	12,000,000	1.61%
Øivind Risberg	Director, Norse Energy Corp ASA	7,427,301	1.00%
Mark Dice	Chief Executive Officer	2,250,000	0.30%

See Note 10 Share-based payment plans to the consolidated financial statements for the Company's option scheme and granted options.

Amount of shares	Number of shareholders	% of total	Number of shares	Holding in %
1-1,000	590	10.38%	315,940	0.04%
1,001-5,000	1,336	23.50%	3,926,442	0.53%
5,001-10,000	778	13.69%	6,485,889	0.87%
10,001-100,000	2,057	36.19%	82,163,039	11.06%
100,000-1,000,000	809	14.23%	251,111,040	33.79%
1,000,001	114	2.01%	399,152,216	53.71%
<b>Total</b>	<b>5,684</b>	<b>100.00%</b>	<b>743,154,566</b>	<b>100.00%</b>

### Note 11. Guarantee liabilities

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

See also further details about financial and market risk in Note 16 Financial risk management to the consolidated financial statements.

### Note 12. Related parties

The Company leased a parking space in Oslo from the former CEO, who from 22 November 2011 is a board member of the Company for NOK 1,500 per month in 2010.

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

See details in Note 16 Financial risk management in the consolidated financial statements.

### Note 14. Subsequent events

#### Sale of acreage and overriding royalty interests

On 31 December 2012 Norse entered into a definitive agreement to sell acreage and overriding royalty interests for cash consideration of USD 26.7 million to undisclosed and unrelated buyers.

Norse is selling leases and fee interests totaling approximately 18,100 acres in Central New York and overriding royalty interests of (i) 2.5% on 24,300 acres that are held by production ("HBP") in Central New York; (ii) 3.75% on 84,000 non-HBP leased and fee acres located in Central New York; and (iii) 6.25% on 33,000 acres located in Western New York.

Not included in this transaction are the Company's proved reserves, including those reserves in the Herkimer Formation.

On 3 January 2011, the group received USD 21.7 million. With the exception of expense reimbursements, the USD 5 million held in escrow was expected to be returned to the buyer upon completion of confirmatory due diligence.

#### Conversion of bonds to new shares

On 9 January 2012, Norse announced that DCF Capital had subscribed for a total of 53,120,000 New Shares in the Company with a nominal value of NOK 0.36883488 per share at a subscription price of NOK 0.40 per share giving a total subscription amount of NOK 21,248,000.00 (the "First Placement"). The subscription amount was settled by DCF delivering to the Company (a) bonds in NEC04 with a total nominal amount of NOK 6,800,000 and (b) bonds in NEC02 with a nominal value of USD 2,400,000. The new shares under the First Placement were issued and registered in the VPS on 12 January 2012.

On 26 January 2012, Norse announced that Pioneer Global High Yield Fund, Pioneer High Income Trust and Pioneer Funds – Global High Yield (Lux) (the "Pioneer Funds") would subscribe for a total of 21,195,456 New Shares in the Company with a nominal value of NOK 0.36883488 per share at a subscription price of NOK 0.37 per share giving a total subscription amount of NOK 7,842,319 (the "Second Placement"). The subscription amount will be settled by the Pioneer Funds delivering to the Company bonds in NEC 02. The New Shares under the Second Placement have been issued and registered with the VPS. On 26 January 2012, Norse further announced that it would offer to holders of bonds to repurchase the bonds at par value, with settlement through the issue of New Shares in the Company, where the subscription price was to be determined by a book building process. The Company further announced that the Pioneer Funds had pre-subscribed for the repurchase of bonds by the Company with a nominal value of USD 11,123,587 against the issue of New Shares at a subscription price of NOK 0.37 per share.

On 30 January 2012, Norse announced that the book-building was successfully completed and that approximately USD 18.5 million of bonds had been tendered, including the subscription by the Pioneer Funds in the Second Placement and the further pre-subscription by the Pioneer Funds. On 17 February 2012, Norse further announced that the Company's Board of Directors had resolved to increase the Company's share capital by NOK 99,292,534.30 through an issue of 269,205,923 New Shares, each with a nominal value of NOK 0.36883488 at a subscription price of NOK 0.37 per share, giving a total subscription amount of NOK 99,606,191.51 to be settled against repurchase of bonds at par (nominal) value (the "Third Placement").

The New Shares are issued under the power of attorney granted the Board of Directors of Norse in the Extraordinary General Meeting on 22 November 2011. For additional information refer to the Prospectus dated 17 February 2012 on the company's website.

### **Bond refinancing**

The Group executed the conversion of a total of USD 21 million of bond debt to shareholder equity at a significant premium to market price per share.

On 28 February 2012, the Group announced it had reached a refinancing agreement with its bondholders constituting a majority in each of the NEC 02, 04 and 05 bond issues. The Group will issue new convertible bonds with principal amount minimum USD 21 million and maximum USD 40 million, where the minimum amount of USD 21 million will be settled by conversion of a corresponding principal amount of NEC02/04/05 bonds (pro rata). The convertible debt has a strike of NOK 0.37 per share (subject to adjustment clauses), carries a 5% coupon, is 3 years in duration, contains a call provision, and is secured by the shares in the Groups wholly owned subsidiary, Norse Energy Holding Inc. On April 10 the Group completed the issuance of new convertible bonds with principal amount of USD 21 million which has been settled by conversion of a corresponding principal amount of NEC02/04/05 bonds (pro rata). The refinancing is contingent upon the successful prepay of the remaining outstanding bonds, in total USD 34.5 million, at par by 20 June 2012 provided it secures the necessary financing thereof through asset sales or other means.

On 10 April 2012 the Group announced that the NEC03 bonds (par value USD 3.74 million) had been called and replaced by a new bond loan ("NEC06") with approximately 1 year longer duration (2013). Upon issue of NEC06 the bondholders will receive 750,000 warrants to subscribe for 7.5 million shares in the Company at strike NOK 0.28 per share, with 1 year duration.

The below table below shows the nominal amounts of bond principal payable following the asset sale, conversions, and debt refinancing.

(in USD millions)

	<b>Old</b>	<b>New</b>
<b>2012</b>	35.6	56.5 *
<b>2013</b>	32.2	-
<b>2014</b>	9.4	-
<b>2015</b>	-	21.0
<b>After</b>		
<b>Total Principal Payments</b>	<b>77.2</b>	<b>77.5</b>

\*USD 22 million has been paid down through equity swaps in February 2012 and the USD 21 million was refinanced in April 2012 and moved out till 2015 per above. The remaining USD 34.5 million will be settled by 20 June 2012 per the refinancing agreement reached on 28 February 2012 with the proceeds from the Herkimer sale.

### **Reserves**

On 21 February 2012, the Group announced increase reserves and resources as certified by Schlumberger Data and Consulting Services. Total 1P Proved Reserves as of 31 December 2011 increased from ~34.4 Bcf. to ~43.4 Bcf. compared to 31 December 2010, an increase of ~26%. Total 2P Reserves as of 31 December 2011 increased from ~41.0 Bcf to ~60.3 Bcf. compared to 31 December 2010, an increase of ~47%. The Group expects to obtain revised reserve estimates, midyear, to reflect the close of the sale of the Herkimer Assets announced 15 March 2012 described below.

### **Sale of Herkimer Assets**

On 15 March 2012 Norse announced that it has entered into a definitive agreement to sell its operated production, ~23,000 held by production ("HBP") acres (in which Norse retains a 37.5% working interest in the deep Utica formation), gathering system, and pipeline rights of way in Central New York. The buyer will also receive a three year warrant to purchase 81 million shares at a strike price of NOK 0.40 at the closing date. Total cash consideration to Norse is USD 37 million.

The buyer is EmKey Resources, LLC, a privately owned company, led and partially owned by Øivind Risberg, a current Norse board member and former Norse Energy CEO.

In connection with this transaction, the buyer is committed to construct a pipeline capable of transporting a minimum of 90,000 Mcf/day, once Norse so nominates for firm transportation.

#### **Other**

An Extraordinary General Meeting of the Shareholders was held on 30 March 2012 and 16 April 2012 during which the following proposals were approved:

##### **30 March 2012 EGM**

- Proposal for authorization to the Board of Directors to increase share capital by up to NOK 200 million, in accordance with the debt restructuring plan announced on 28 February 2012
- Proposal for issuance of warrants to investors in a new bond loan (NEC 06)
- Proposal for amendment of Articles of Association by reverse split of shares 10-1

##### **16 April 2012 EGM**

- Proposal to sell Herkimer Assets to EmKey Resources, LLC.
- Proposal to issue warrants to EmKey Resources, LLC to purchase 81 million new shares in the Company at subscription price of NOK .040 per share

#### **Note 15. Going concern**

The annual financial statements have been prepared pursuant to the going concern assumption, in accordance with section 3-3 of the Norwegian Accounting Act. This assumption is based upon the successful outcome of the financial challenges facing the Company as described in this report. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

The Group faced challenges related to liquidity and bank and bond covenant compliance as of 31 December 2011. The Group's cash balance was approximately USD 4 million on 31 December 2011.

As a result of the declining commodity price for natural gas, the Group is not in compliance with the equity covenants at the balance sheet date. As part of the refinancing agreement entered into on 28 February 2012, the bondholders have granted a waiver on the financial covenants through 20 June 2012.

Approximately USD 21.7 million of cash was received on 3 January 2012 from an asset sale. See Note 7 Sale of acreage and overriding royalty interests and Note 31 Subsequent events in the Group financial statements. Upon receipt, the Group paid down the full balance of its revolving credit agreement of USD 10.75 million and purchased a USD 3 million letter of credit with Amegy bank.

On 28 February 2012, the Group announced it had reached a refinancing agreement with its bondholders constituting a majority in each of the NEC 02, 04 and 05 bond issues. The Group issued new convertible bonds with principal amount of minimum USD 21 million and maximum USD 40 million, where the minimum amount of USD 21 million was settled by conversion of a corresponding principal amount of NEC02/04/05 bonds (pro rata). The convertible debt has a strike of NOK 0.37 per share (subject to adjustment clauses), carries a 5% coupon, is 3 years in duration, contains a call provision, and is secured by the shares in the Group's wholly owned subsidiary, Norse Energy Holdings Inc.

The Group is to prepay the remaining outstanding bonds, in total ~USD 35 million, at par within 20 June 2012, provided it secures the necessary financing thereof through asset sales, sale of further convertible bonds to new investors, issuance of equity, other M&A activity and/or joint ventures. The Group presented the bondholders with a plan to source the ~USD 35 million prepay on 15 March 2012. The refinancing is contingent upon the successful prepay of the remaining outstanding bonds.

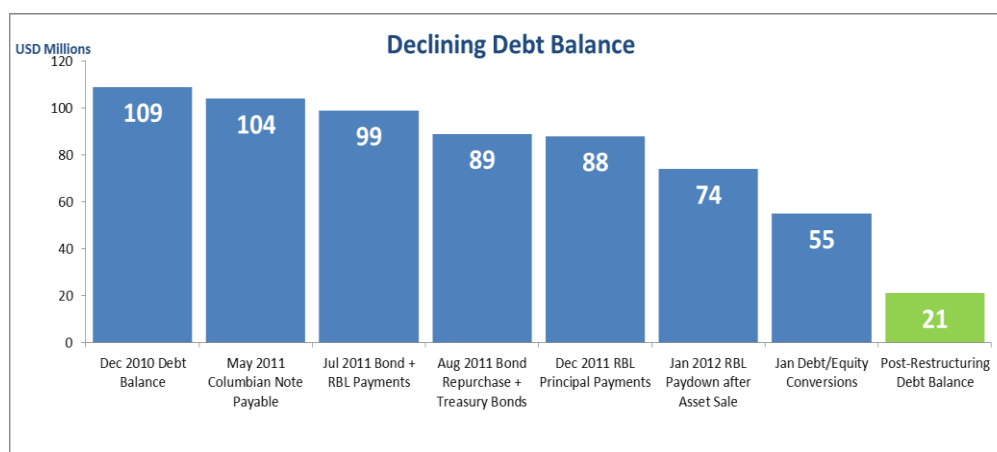
The Group announced on 10 April 2012 the following transactions:

- The NEC03 bonds (par value USD 3.74 million) were called and replaced by a new bond loan ("NEC06"). Upon issue of NEC06 the bondholders received 750,000 warrants to subscribe for 7.5 million shares in the Company at strike NOK 0.28 per share, with 1 year duration. The NEC06 bond loan is expected to be paid in full as part of the ~USD 35 million prepay announced 15 March 2012.
- Issuance of new convertible bonds with principal amount of USD 21 million which has been settled by conversion of a corresponding principal amount of NEC02/04/05 bonds (pro rata).

The Group's interest bearing debt balance has declined from ~USD 109 million to ~USD 55 million, and upon closing of the Herkimer transaction, the Group's interest bearing debt balance is projected to be further reduced to ~USD 21 million. The following transaction summary explains the decline:

- May 2011 - ~USD 4.2 million Columbia Note Payable was paid in full
- July 2011 - ~USD 4 million NEC 03 Scheduled Principal Payment
- July 2011 - ~USD 1 million paid to reduce Reserve Based Lending revolver
- August 2011 - ~USD 8 million bond debt purchased at a discount to par in open market transactions
- August 2011 - ~USD 2 million of treasury bonds were retired at a gain.
- December 2011 - ~USD 1 million paid to reduce Reserve Based Lending Revolver
- January 2012 - ~USD 11 million paid from the proceeds of the December sale of assets. The revolver was paid in full as a result.
- January - February 2012 - ~USD 20 million converted from bond debt to equity in a series of transactions as described in Note 22 Interest-bearing debt in the group financial statements.

May 2012 - ~USD 35 million bond debt is projected to be repaid from the proceeds of the announced Herkimer sale. Reference can be made to Note 31 Subsequent events.



The Group incurred a net loss of USD 80,204 million (parent: net loss of NOK 495 million) during the year ended December 31, 2011 and, as of that date, the Group's current liabilities exceeded its total assets by USD 21,793 million. The Group's equity was negative as at 31 December 2011. The Group and the parent are dependent on new equity or other financing in order to continue as a going concern. The Group's cash position was ~USD 4.5 at end of April 2012 and is just sufficient to finance operations into the third quarter of 2012. Following the sale of the Herkimer the Group has no producing assets providing cash inflows and third funding is required to conduct its operations.

In order to address the Group's liquidity requirements going forward, the following alternatives are under consideration:

- additional asset sales
- joint ventures with industry partners
- issuance of additional equity
- issuance of additional debt
- further cost reduction measures

The Group cannot guarantee that it will be able to conduct the intended asset sales or obtain the necessary debt or equity financing, as required to fund current operations and meet maturing debt liabilities. Even if such financing is obtained, no assurance can be given that such financing will be on terms acceptable to the Group. A failure to obtain required financing in time will materially adversely affect the Group's business, operations and financial condition.

On 8 July 2011, the New York State Department of Environmental Conservation (DEC) issued the preliminary draft Supplemental Generic Environmental Impact Statement (SGEIS). The revised draft SGEIS was issued by the DEC on 7 September 2011 followed by proposed regulations to implement the SGEIS. The public comment period for both expired on 11 January 2012. A review of the comments received during the public comment period will be conducted before issuance of the final SGEIS and corresponding regulations. 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 Shale, Utica Shale, and other shale 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 Group's assets if they were to be offered for sale.

As described above the Group's continued operation is dependent on the successful outcome of the financial and regulatory challenges facing the Group.

### **Note 16. Demerger**

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

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

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

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



# DIRECTORS' RESPONSIBILITY STATEMENT

Today the Board of Directors and the Chief Executive Officer reviewed and approved the Board of Directors' report and the consolidated and separate financial statements for Norse Energy Corp. ASA for the year ending 31 December 2011. Norse Energy Corp. ASA consolidated financial statements have been prepared in accordance with IFRS's and IFRIC's as adopted by the EU and additional disclosure requirements in the Norwegian Accounting Act and that should have been applied as of 31 December 2010. The separate financial statements for Norse Energy Corporation ASA have been prepared in accordance with the Norwegian Accounting Act and Norwegian accounting standards no 16, as of 31 December 2011.

To the best of our knowledge the financial statements for 2011, have been prepared in accordance with applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the Group taken as a whole, and that the Board of Directors' report includes a true and fair review of the development and performance of the business and the position of the Company and the Group taken as a whole, together with a description of the principal risks and uncertainties that they face.

The Board of Directors

Oslo, 21 May 2012  
Norse Energy Corp. ASA

Cecelie Amdahl  
*Chairperson of the Board*

Bjarte Bruheim  
*Director*

Elin Karfjell  
*Director*

Frank Pici  
*Director*

Øivind Risberg  
*Director*

Mark Dice  
*President and CEO*



# AUDITOR'S REPORT



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

## INDEPENDENT AUDITOR'S REPORT

### Report on the Financial Statements

We have audited the accompanying financial statements of Norse Energy Corp. ASA, which comprise the financial statements of the parent company and the financial statements of the group. The financial statements of the parent company comprise the balance sheet as at December 31, 2011, the income statement and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information. The financial statements of the group comprise the statement of financial position as at December 31, 2011, the statement of comprehensive income, the statement of changes in equity, cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *The Board of Directors and the Managing Director's Responsibility for the Financial Statements*

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these financial statements in accordance with the Norwegian accounting act and accounting standards and practices generally accepted in Norway for the parent company accounts and in accordance with International Financial Reporting Standards as adopted by EU for the group accounts, and for such internal control as The Board of Directors and the Managing Director determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

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

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

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



*Opinion on the financial statements for the parent company*

In our opinion, the financial statements of the parent company are prepared in accordance with the law and regulations and give a true and fair view of the financial position of Norse Energy Corp. ASA as at December 31, 2011, and of its financial performance and its cash flows for the year then ended in accordance with the Norwegian accounting act and accounting standards and practices generally accepted in Norway.

*Opinion on the financial statements for the group*

In our opinion, the financial statements of the group are prepared in accordance with the law and regulations and give a true and fair view of the financial position of the group Norse Energy Corp. ASA as at December 31, 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

*Emphasis of Matter*

Without qualifying our opinion, we draw attention to Note 15 Going concern in the financial statements for the parent company, Note 32 Going concern and Note 29 Legal proceedings in the financial statements for the group, and the Board of Directors' report.

The group incurred a net loss of TUSD 80 204 and the parent company incurred a net loss of TNOK 495 320 during the year ended December 31, 2011. As of that date, the current liabilities in the group exceeded total assets by TUSD 21 793. The group and the parent company are dependent on new equity or other financing in order to continue as a going concern. This financing is currently not in place.

These conditions, along with other matters as set forth in the Board of Directors' report and the referenced notes, indicate the existence of a material uncertainty that may cast significant doubt about the parent company and the group's ability to continue as a going concern.

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

**Report on Other Legal and Regulatory Requirements**

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

Based on our audit of the financial statements as described above, it is our opinion that the information concerning the financial statements presented in the Board of Directors report and in the statement of corporate governance principles and practices, the going concern assumption and the proposal for the coverage of the loss, complies with the law and regulations and that the information is consistent with the financial statements.



*Opinion on Registration and Documentation*

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, May 21, 2012  
Deloitte AS

A handwritten signature in blue ink that reads "Mette Herdlevær".

Mette Herdlevær  
State Authorised Public Accountant (Norway)



# STATEMENT ON CORPORATE GOVERNANCE

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

## 1 Implementation and Reporting on Corporate Governance

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

## 2 Business

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

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

Clear objectives and strategies are set forth in this document and related documents including: “Directives for the Work of the Board of Directors”, Directives to the Chief Executive Officer”, and “Directives to the Chief Financial Officer”.

## 3 Equity and Dividends

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

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

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

## 5 Freely Negotiable Shares

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

## 6 General Meetings

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

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

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

## **7 Nomination Committee**

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

## **8 Board of Directors –Composition and Independence**

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

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

## **9 The Work of the Board of Directors**

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

## **10 Risk Management and Internal Control**

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

The Board provides in note 16 in the annual report the main features of the Company's internal control and risk management systems as they relate to the Company's financial risk management.

## 11 Remuneration of the Board of Directors

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

## 12 Remuneration of the Executive Personnel

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

## 13 Information and Communication

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

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

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

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

## 14 Takeovers

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

## 15 Auditor

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



# OTHER INFORMATION

## Glossary

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

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