Annual report 2013

north energy

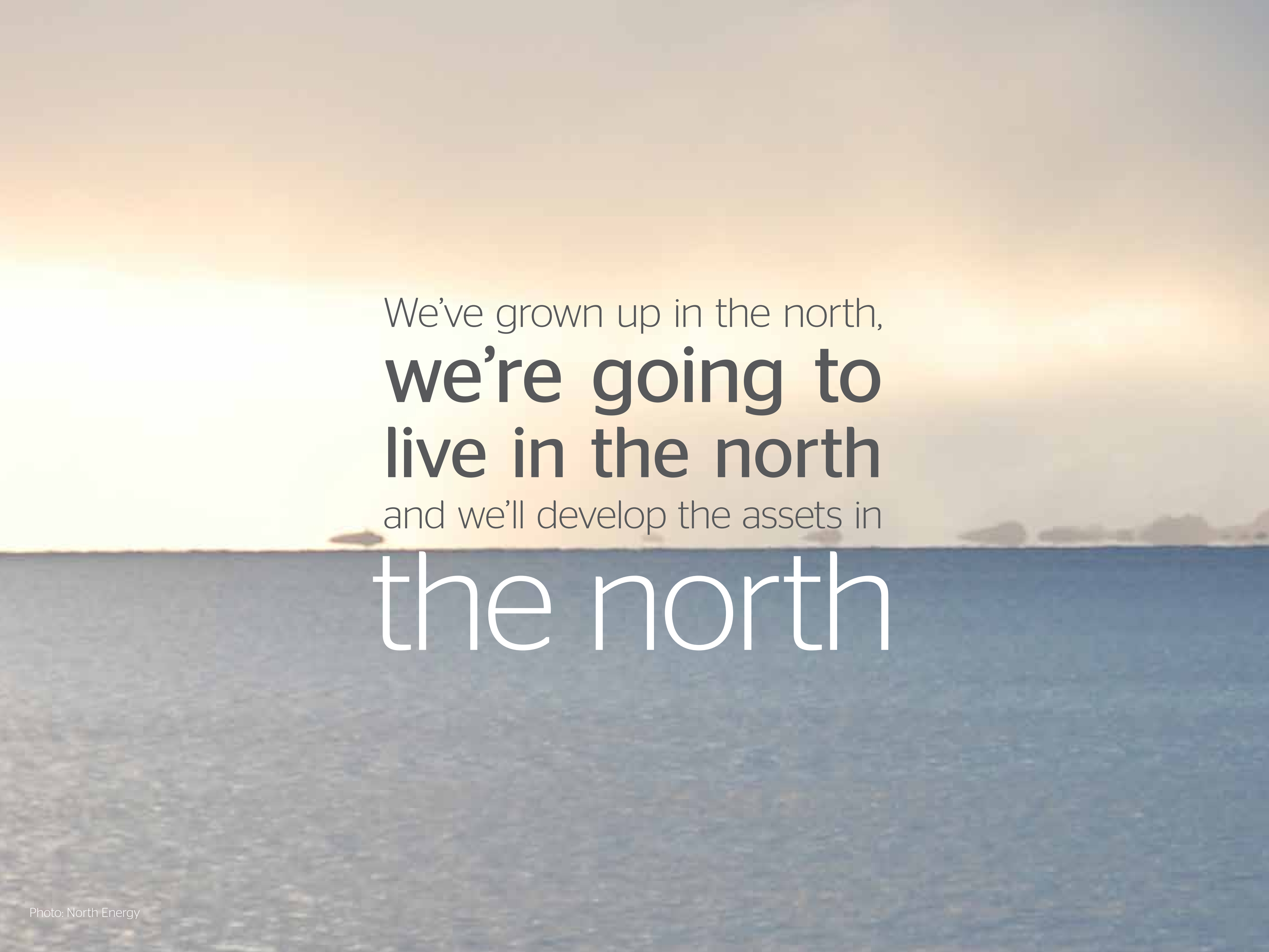
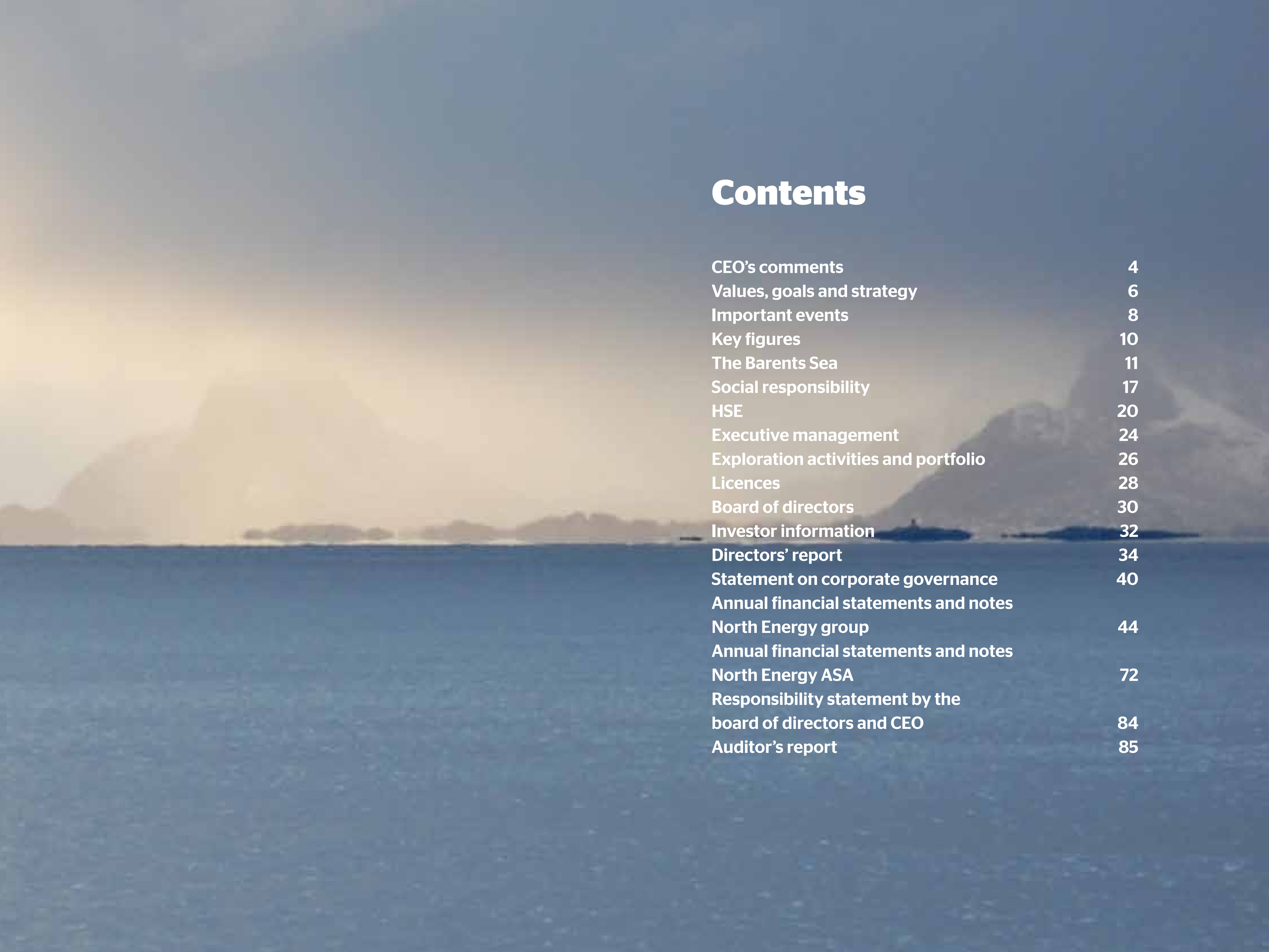


Photo: North Energy



Contents

CEO's comments

Ready for increased activity

North Energy has an attractive and unique position in northern Norway, and 2013 was a year when we strengthened our technology, finances and expertise for the exciting time ahead of us.

We have followed up the latest developments in the Barents Sea through a revision of our exploration strategy. In a highly interesting and demanding year, we used our time effectively and further strengthened the attention we give to the Barents Sea as our core area.

New exploration strategy implemented

A clear reorientation of our exploration strategy was adopted in 2012, and these changes were implemented in the organisation during 2013. Within six months, we should begin to see real results from the specific and long-term moves we have made.

Our commitment to advanced exploration technology has resulted in a total review and restructuring of our licence portfolio.

Conventional geological and geophysical (G&G) studies combined with analyses utilising electromagnetic (EM) surveys and Rex Virtual Drilling (RVD) are expected to improve the finding rate, cut finding costs and thereby contribute to commercial oil discoveries.

Technological and industrial partners

Collaboration with new technological and industrial partners is helping to strengthen our exploration activity through both technology and financial agreements.

We signed a four-year agreement with technology company Rex Oil and Gas, which works to prove oil by identifying resonance from crude in a reservoir with a known core frequency. The latter is calculated from the properties of the oil and the reservoir – and is found in traditional seismic data. Test analyses of RVD are statistically convincing.

The collaboration agreement with seismic survey company TGS Nopec on the purchase of data and services is a natural consequence of our deal with Rex on using RVD for prospect evaluation, since this requires large quantities of seismic information.

In our hunt for new technological tools, we have noted that EMGS AS has had great success with its EM surveys in the Barents Sea. These have proved an efficient exploration tool in shallow hydrocarbon basins like this part of the Norwegian continental shelf (NCS). On that basis, we have entered into an agreement with EMGS to acquire rights to its whole EM data library for the Barents Sea. Our priority area north of Johan Castberg appears to be particularly well covered by these surveys.

We now possess a volume of data comparable with the very biggest companies on the NCS, and are among the front runners in analysing this information.

Among the leaders for licence awards

We are naturally very satisfied to have been awarded six exciting and valuable licences in the 22nd licensing round. We regard these as a recognition of our exploration department's expertise, and as backing for our long-term strategy in the far north.

A further six licences, including two operatorships, were secured in the awards in predefined areas (APA) for 2013. We retain our position as the

Collaboration with new technological and industrial partners is helping to strengthen our exploration activity through both technology and financial agreements.

company with the largest number of licences in the Barents Sea after Statoil. These awards represent a substantial expansion of our portfolio. Our Barents Sea profile has been further strengthened through two licences in areas with good opportunities for oil discoveries.

We will build further on this by increasing the number of our wells in this part of the Barents Sea through farm-ins to existing licences and new awards from licensing rounds.

More good brains

A very successful recruitment process in 2013 allowed us to take on 12 experienced geologists and geophysicists, who help to ensure that our exploration department has solid and broad expertise. We are particularly pleased that our head office in Alta has been strengthened by this process.

Interest in working in the north Norwegian oil company is great, and we are attracting both young and experienced specialists who want to participate in our growth.

I am proud of my colleagues who, in addition to a solid commitment at work all year round, contribute their expertise to the various social activities we pursue in our local north Norwegian community.

Drilling in attractive wells

No breakthrough occurred in 2013 with our strategic goal of drilling a well as operator, but the acquisition of a promising operatorship in PL 509 and a discovery close to PL 590, where we are the operator, have brought us closer to a drilling decision in 2014. We have a 20 per cent interest in PL 713, where operator Statoil is to drill in this interesting area north-west of Johan Castberg during August. We are looking forward with great anticipation to the well. Source rocks for this structure are the same ones which have filled Johan Castberg. We see the potential for finding both oil and gas.

After 2013

We conducted a share issue totalling almost NOK 300 million at a price above the market rate in February 2014. We managed this through a good collaboration with industrial players, support from the big owners, and the board's decision to seek capital from industrial players.

The decision to invite a few industrial partners had broad support among our biggest owners, well illustrated by the fact that they contributed well over a third of the issue amount. Our two new technology partners came next with solid contributions.

Those who know our potential best are those who have invested in us.

Our job is to create value for our owners and contribute to value creation in northern Norway. We as a company, our owners and our employees believe in the future for the far north. This is inspiring, and requires us to show results. The year we have behind us has given us reinforcements which strengthen our conviction that our goal is within reach.

Erik Karstrøm
CEO

Vision and goal

Vision

North Energy's vision is to become a leading and profitable oil and gas company, which contributes actively to industrial value creation in the far north.

Goal

North Energy's goal is to create value for its shareholders and to contribute to positive spin-offs on land by participating in exploration, development and production activities off mid and northern Norway.

Strategy and core values

Main strategies

Establishing and developing a profitable oil and gas company through the acquisition and award of the best licences in the northern part of the Norwegian North Sea and in the Barents Sea

Ensuring an adequate capital base to sustain the company throughout the value chain

Ensuring access to profitable investment opportunities by being an attractive partner for government and leading oil companies

Being a credible partner for important stakeholders, such as suppliers/contractors, the fishing industry and environmental groups

Core values

At the forefront *– innovative and alternative, develop new ideas, solutions and technologies, the first to show the way*

Competent *– possess state-of-the-art knowledge, be a reference for others through our words and deeds, set a good example*

Bridge-builder *– bring people together, identify the main directions to take, a preferred partner, focus attention and facilitate*

A fearless voice in the north *– daring to say what we think is right and speaking out for the north Norwegian community*

Photo: Tove Ingebrigtsen

Important events in 2013

and to 28 February 2014

Licences

- A 15 per cent holding in PL 693 in the northern part of Nordland was awarded to the company in January 2013 as part of the 2012 awards in predefined areas (APA).
- Six new licences in the Barents Sea were awarded to North Energy in the 22nd licensing round on the NCS, which represented a substantial strengthening of the company's position in the attractive areas of the far north. These include PL 713 in the Bear Island Basin north-west of Skrugard, PL 719 north of Skrugard and Havis, and PL 722 in the Maud Basin on the Bjarmeland platform. The awards also embrace PLs 707 and 708 close to the coast on the Finnmark East platform and PL 535 B, which is an extension of the Norvarg licence.
- North Energy was awarded six new licences, including two operatorships, in the 2013 APA round. The licences awarded are PL 503 C, supplementary to PL 503 in the North Sea, PL 509 CS, supplementary to PL 509 in the North Sea, PL 590 B, supplementary to PL 590 in the Norwegian Sea, PL 762 in the Norwegian Sea, PL 770 in the Barents Sea and PL 769 in the Barents Sea. The operatorships awarded to North Energy were for PL 509 CS and PL 590 B.
- An agreement entered into in May with Spike Exploration Holding AS involved Spike acquiring 10 per cent of PLs 299 and 590 from North Energy.
- The company entered into agreements in April and June with Lime Petroleum Norway AS on the sale of licence interests in the North and Norwegian Seas. These involved four licences in all: PLs 498, 503, 503 B and 616. The total sales sum was NOK 28.2 million.
- North Energy entered into an agreement in June with Wintershall Norge AS whereby North Energy took over 40 percentage points of Wintershall's interest in and the operatorship for licences PL 509 S and 509 BS. Sale and purchase contracts have subsequently been entered into with Lime Petroleum Norge AS and Fortis Petroleum Norge AS for licence interests, so that the licence group today comprises North Energy (operator) 35 per cent, Fortis 35 per cent, Lime 20 per cent and Rocksource Exploration Norge 10 per cent. These licences contain oil prospects and lie in the North Sea south of the Gullfaks area.
- The extensive review and evaluation of the company's licence portfolio will be continued in 2014. Updated knowledge obtained from new discoveries on the NCS, investment in EM data and on-going RVD analyses have provided the basis for a restructured portfolio with a clear majority of oil prospects.

Drilling

- North Energy participated during the second quarter in exploration drilling in PL 299 Frode. Hydrocarbons were not identified.
- Appraisal drilling was pursued during the second and third quarters in PL 535 Norvarg. This well confirmed the considerable extent of the Norvarg discovery and the presence of mobile gas throughout the Kobbe formation. Neither the wildcat, drilled in 2011, nor the appraisal well identified satisfactory production properties in the reservoir. Combined with the lack of infrastructure in the area, this means that the Norvarg discovery is regarded as non-commercial. However, new technology and additional discoveries in the area could provide the basis for establishing the necessary infrastructure – which could lead in turn to a reappraisal of Norvarg's commercial potential.

Technology collaboration/ agreements

- North Energy entered in February into a collaboration agreement with Rex Oil and Gas Limited on the use of Rex Virtual Drilling (RVD), a technology for evaluating prospects. This is based on interpreting resonance from oil, and draws on two- and three-dimensional seismic data. North Energy has introduced RVD during the year as an evaluation method in addition to traditional seismic interpretation, which has influenced the composition of the portfolio and the priority accorded to the various licences.

- A four-year collaboration agreement on the acquisition of seismic data and services has been reached between North Energy and seismic survey company TGS Nopec. With a framework of NOK 200 million, this represents a natural consequence of the collaboration deal with Rex on the purchase of RVD services.
- North Energy entered into an agreement in January 2014 with EMGS ASA on the acquisition of the latter's library of electromagnetic (EM) data from the Barents Sea at a cost of NOK 75 million.

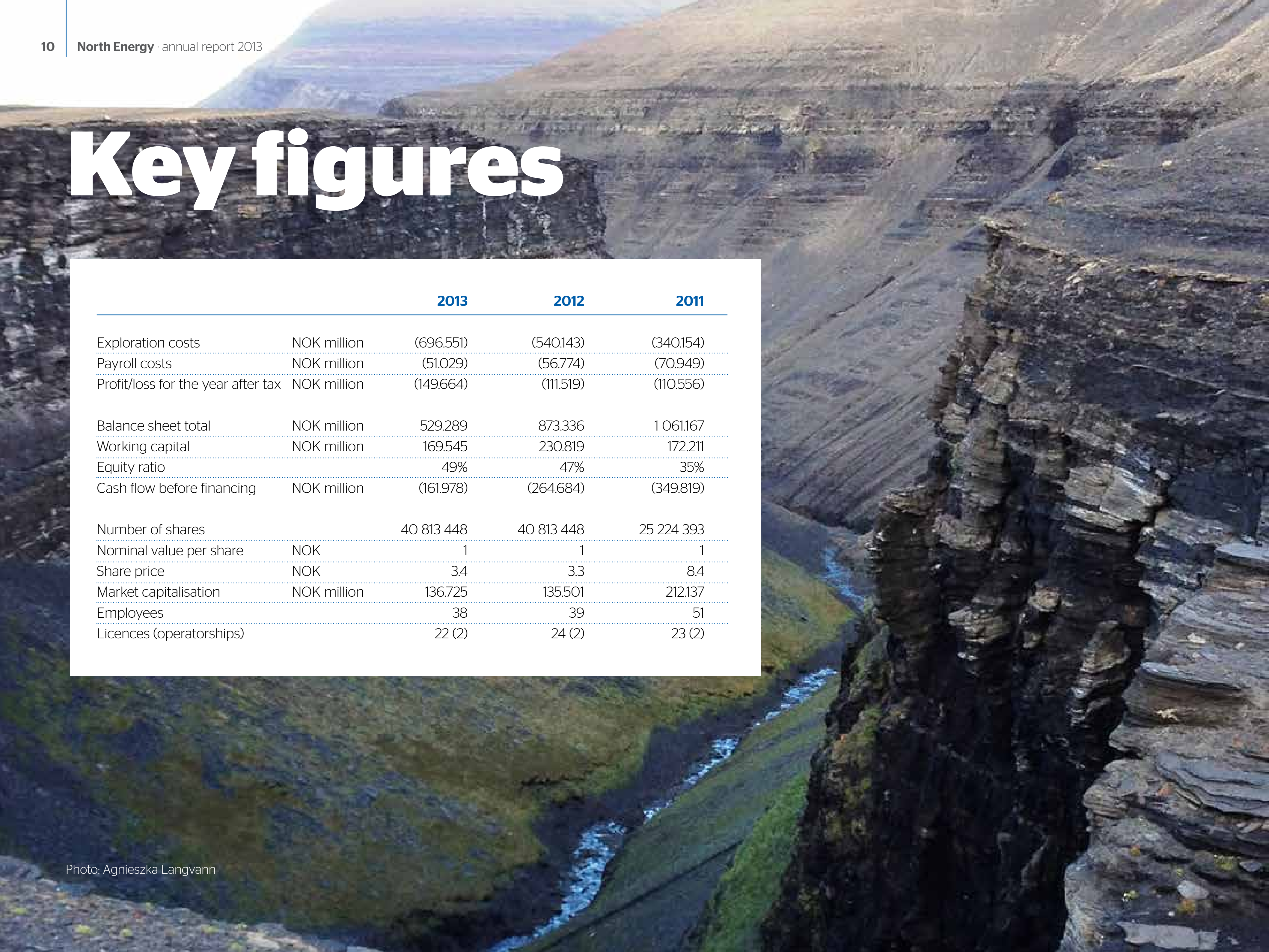
Capital and financing

- North Energy's general meeting approved loan agreements in March 2013 with TGS Nopec and Rex Technology Management, which have frameworks of NOK 200 million and NOK 100 million respectively. These credits can only be used to purchase data, analyses and services from the lender. Running for four years, the agreements given the lender the right but not the obligation to convert debt to shares at three predetermined dates.
- An extraordinary general meeting in February 2014 approved the issue of 71.25 million new shares at a price corresponding to NOK 4 per share, which represented a premium on the market price. The issue provided gross receipts of NOK 285 million. It was directed at large existing shareholders and selected new investors. The same general meeting approved a convertible loan agreement of NOK 75 million with EMGS, which was used to acquire the latter company's library of EM survey data from the Barents Sea. EMGS has the right but not the obligation to convert the debt to shares in North Energy after four months. That part of the debt which has not been converted into shares at six months falls due for redemption. The conversion price is set at NOK 4.15 and interest on the debt at six per cent.

Election of new board

- The extraordinary general meeting in February 2014 elected new directors to the board of the company. Anders Onarheim and Jogeir Romestrand were elected for two years, until the annual general meeting in 2016. The new board comprises Johan Petter Barlindhaug (chair), Heidi M Petersen, Harriet Hagan, Anders Onarheim, Jogeir Romestrand and Alexander Krogh (worker director).

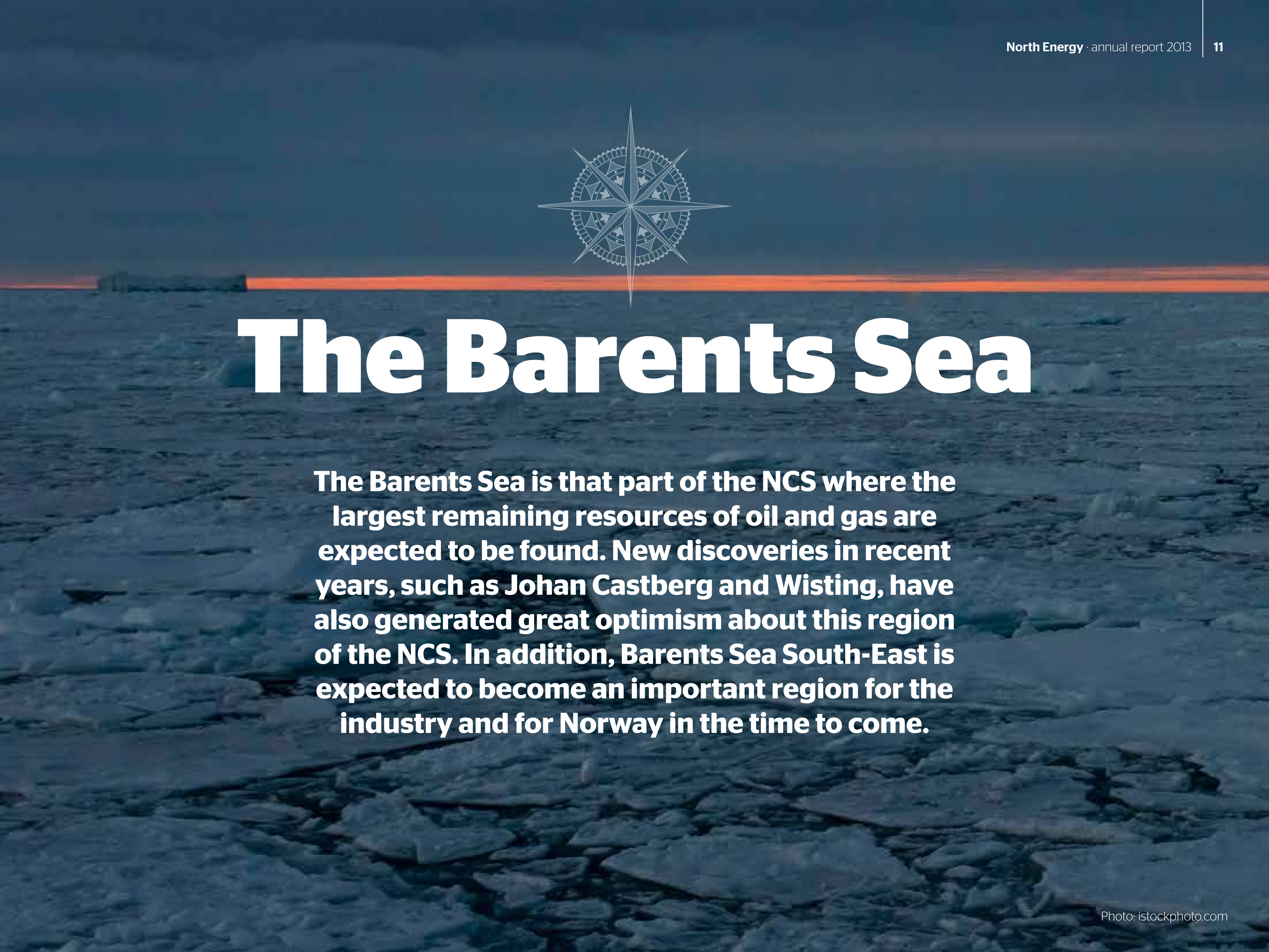
Photo: Agnieszka Langvann



Key figures

		2013	2012	2011
Exploration costs	NOK million	(696.551)	(540.143)	(340.154)
Payroll costs	NOK million	(51.029)	(56.774)	(70.949)
Profit/loss for the year after tax	NOK million	(149.664)	(111.519)	(110.556)
Balance sheet total	NOK million	529.289	873.336	1 061.167
Working capital	NOK million	169.545	230.819	172.211
Equity ratio		49%	47%	35%
Cash flow before financing	NOK million	(161.978)	(264.684)	(349.819)
Number of shares		40 813 448	40 813 448	25 224 393
Nominal value per share	NOK	1	1	1
Share price	NOK	3.4	3.3	8.4
Market capitalisation	NOK million	136.725	135.501	212.137
Employees		38	39	51
Licences (operatorships)		22 (2)	24 (2)	23 (2)

Photo: Agnieszka Langvann



The Barents Sea

The Barents Sea is that part of the NCS where the largest remaining resources of oil and gas are expected to be found. New discoveries in recent years, such as Johan Castberg and Wisting, have also generated great optimism about this region of the NCS. In addition, Barents Sea South-East is expected to become an important region for the industry and for Norway in the time to come.

Photo: istockphoto.com

The Barents Sea is a shallow body of water, with an average depth of 230 metres. It extends from the Norwegian Sea in the west, where depths descend to more than 2 500 metres, to the coast of Novaya Zemlya in the east. To the south is the coast of Norway and Russia, while its northern limit is roughly 80°N.

Willem Barentsz
c 1550-1957
Navigator, cartographer and discoverer

The name of Willem Barentsz was immortalised with the discovery of Spitsbergen (Svalbard). The Barents Sea, the Barents region, Barentsburg and Barentsøya are all named after him. His best-known map was published posthumously. Covering the far north, he completed it while overwintering on Novaya Zemlya. This is also why his name was given to the Barents Sea.

Great joy prevailed in North Energy during 2013 when it was awarded several of the most interesting licences in areas which were high on its list of priorities in the 22nd licensing round. The company secured six new licences in the Barents Sea, further strengthening its position in these waters.

As an industrial player sprung from and based in northern Norway, North Energy regards its closeness to and understanding of this region as important assets now that the oil industry is expanding in the far north. The company has been a clear industrial north Norwegian voice in this development, and will remain so.

"It's very important for the region that a north Norwegian player participates in the long-term development," says North Energy CEO Erik Karlstrøm. "I take this to be a clear signal of a forward-looking national policy by the government. These awards are a confirmation of our professional and technical expertise, and a recognition of the knowledge possessed by our exploration department about the Barents Sea."

North Energy was awarded two additional Barents Sea licences in the 2013 APA round, and will further increase the commitment of resources to its core area in the time to come. This strategy is underpinned by the company's unique position in northern Norway, combined with the application of EM surveys and RVD – technologies particularly suitable for the Barents Sea.

The capital secured in 2013 and 2014 means the company has the funding to pursue a substantial exploration programme. With its solid roots in northern Norway, it is concerned to create lasting value both for its owners and for the population of the region. North Energy's history of awards in the Barents Sea bears comparison with the very largest players on the NCS, and demonstrates that it is on its home ground here.

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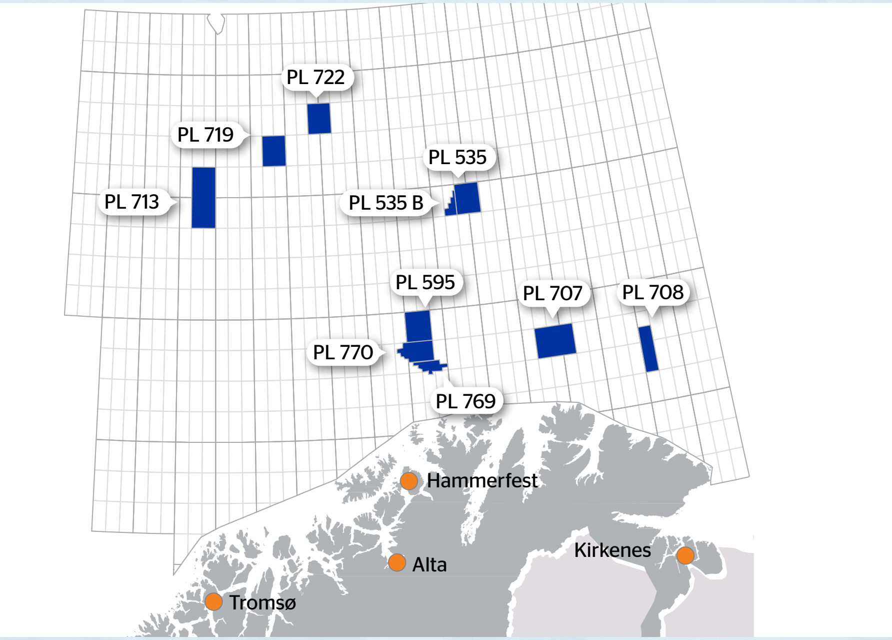
The current licence portfolio in the Barents Sea.



Awards in the Barents Sea from 2008 to the present.

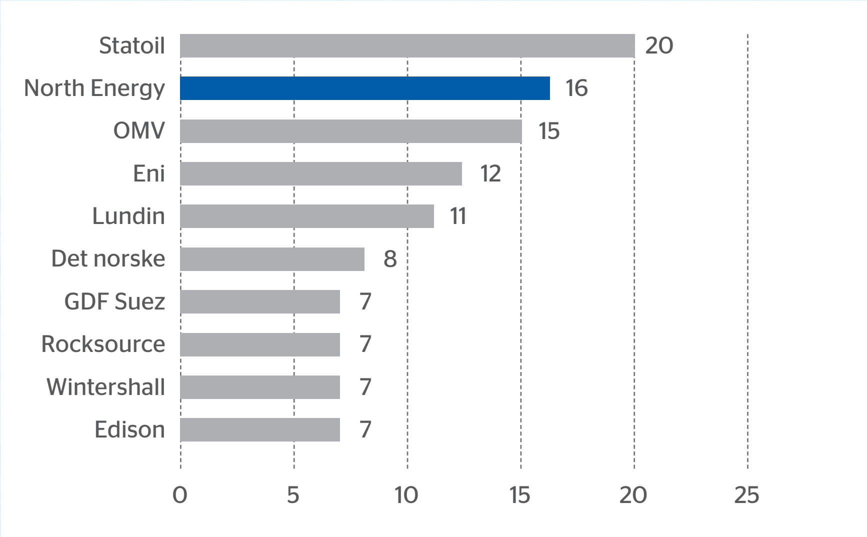


Photo: istockphoto.com

16 June 1596

"We made good speed on 16 June and sailed towards the north-east, and because it was foggy we heard the ice before we saw it."

Quote in *Willem Barentsz' last voyage* from Gerrit de Veer's description in 1598.

Expectations for and challenges of forward-looking development in the far north

With expectations for oil and gas resources in the Barents Sea and the Arctic rising, a growing number of companies are being drawn northwards. The nomination process for the 23rd licensing round on the NCS shows clearly that the region is attracting great interest and being viewed in a long-term perspective.

North Energy produced a report on perspectives in 2011 which discussed Norway's strategic challenges as an oil and gas nation, viewed from its northern region. With the topicality which the Barents Sea has acquired, combined with new knowledge, the company is now working on a new report called *Perspectives 2014*.

During 2012 and 2013, North Energy was manager for the Intsok project on RU-NO Barents: Transport and Logistics. This has discussed the necessary preconditions for pursuing profitable development of the Barents, Pechora and Kara Seas in a safe and environmentally secure manner.

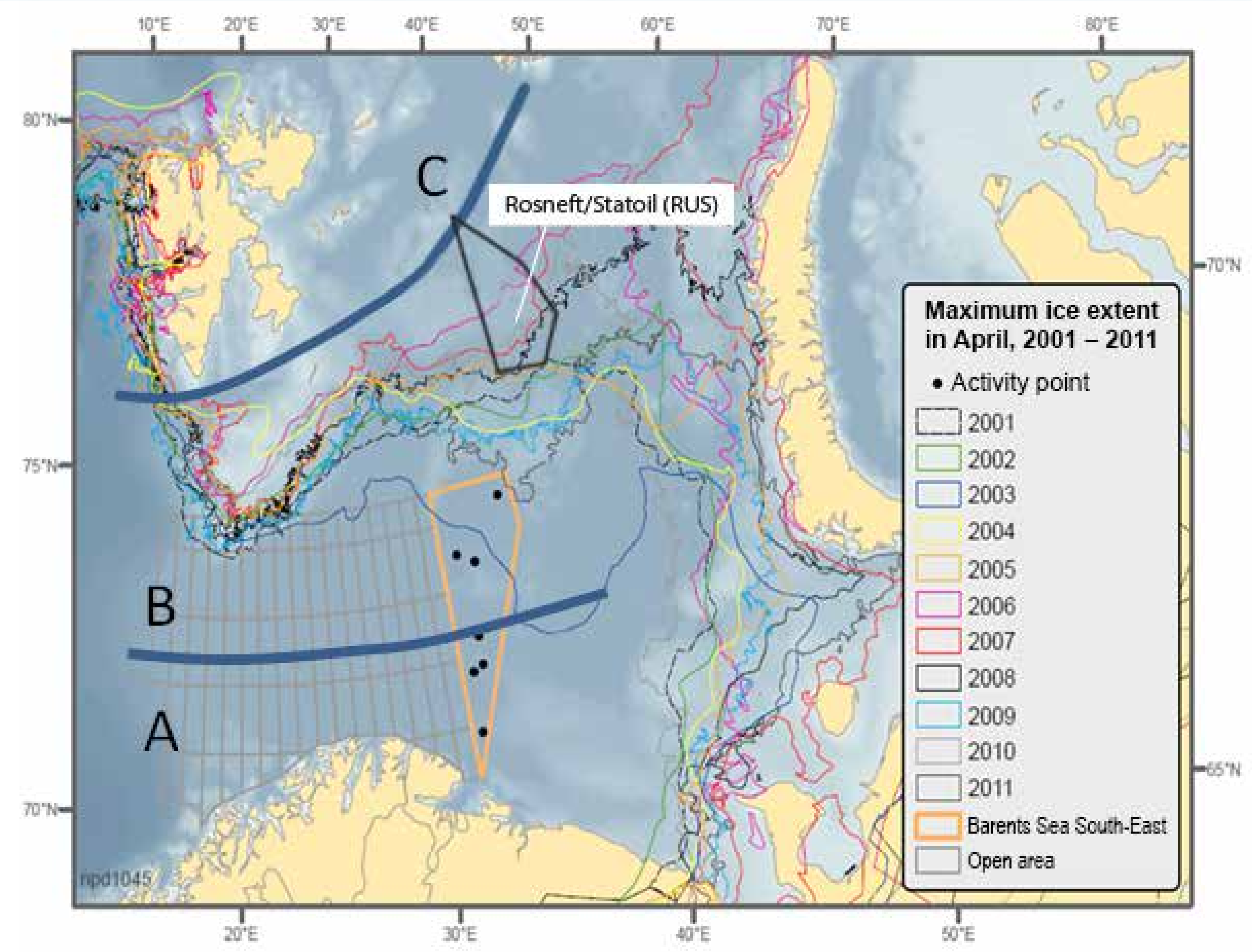
Work in this project has revealed that fairly substantial challenges must be overcome both on the NCS and on the Russian continental shelf. On the Norwegian side, the combination of winter darkness, Polar lows, Arctic storms, icing and floating ice which cannot be detected by satellites or radar is regarded as the biggest challenge when moving northwards in the Barents Sea.

This emphasises a need for new and stricter operational requirements for communication, search and rescue, personnel transport, evacuation, ice management, and choice of development solutions.

Optimum exploitation of resources in the Barents Sea cannot be achieved without a coherent and overall development structure – or, as Bente Nyland, director general of the Norwegian Petroleum Directorate (NPD), has put it, a "coordinated area development". The huge distances make it necessary to reassess earlier development practice, where each new field decides its own terms – which may later prove to impose restrictions for integrated solutions with future discoveries.

These challenges will acquire new dimensions as the oil industry moves from discoveries in near-shore waters, such as the Goliat and Snøhvit fields (A), into the "Arctic" Barents Sea, with floating ice in the open sea, from Johan Castberg towards Hopen (B) and further into the area characterised by more or less permanent pack ice (C). This is because the Arctic is not a unified concept. The A, B and C regions present different challenges, and finding good and different solutions to these will be essential.

The complex Arctic



From the near-shore Barents Sea to its Arctic area:
The three regions – A, B and C – represent different challenges which call for different and tailored solutions.

Challenges created by big distances, icing, Arctic storms and winter darkness could make it risky and unprofitable to use existing solutions such as floating production installations and offshore loading.

The main focus of attention *Perspectives 2014* will be on area B, which could be relevant for the oil industry over the next 15-20 years. The recent Wisting discovery and the award of licences right up to 74°N enhance the topicality of this picture.

Challenges created by big distances, icing, Arctic storms and winter darkness could make it risky and unprofitable to use existing solutions such as floating production installations and offshore loading. It could accordingly be relevant to think in terms of fixed concrete structures, serving as hubs with shared functions, as well as extensive use of subsea installations over long distances. Several parts of area B have water depths well below 150 metres, which opens for the use of iceberg-resistance concrete platforms with the necessary load-bearing flexibility to permit later modifications and conversions. As part of this picture, stabilised oil and dewatered gas will naturally be taken to land for processing and onward export. To achieve satisfactory capacity for deliveries to the market, the gas should be piped to the export pipeline network in the south.

Energy supply is another major challenge. Power provision in Finnmark is very deficient today. This must be solved, but the industry is well under way in developing technology and system solutions for transmitting power from shore. Robust hub installations could also play an important role here. Moreover, Svalbard and Bear Island could be relevant for important shared functions and as search and rescue centres.

A development of the Arctic Barents Sea depends on commercial discoveries being made. To secure swift answers here, one could envisage oil companies joining forces for intensive drilling campaigns in prospective areas on the same pattern as the forthcoming seismic survey of Barents Sea South-East. At the same time, intensifying research and development work focused on the environmental and operational challenges faced in the Barents Sea will be important.

Corporate social responsibility

Expertise is a crucial requirement if northern Norway is to become more than a facility region for oil companies established in the south. This is the background for North Energy's broad and long-term involvement with the education system at every level from nursery schools to universities.

Photo: North Energy

Expertise development

One of the company's collaboration projects is the **Energy School** at Alta College of Further Education. The Ministry of Petroleum and Energy is working with the Norwegian Centre for Science Education on this project, which aims to boost interest in energy and petroleum among young people.

Building expertise in petroleum-related disciplines helps to strengthen north Norwegian ownership of the developments facing the region.

Students are given an insight into the petroleum industry's value chain, and North Energy helps to provide them with an experience close to actually working day-to-day in oil companies.

During study visits to the company, they get an introduction to oil exploration and work with various types of log data. The students are guided by petrophysicists from North Energy.

Concepts such as porosity, permeability, saturation and new technical terms are reviewed. The students get a real taste of the discipline when actual formulae are presented and various types of logs gone through as specific examples. Several say that they have only appreciated the relevance of maths after working on formulae in this way.

ENERGY ON THE LOOSE

In addition to various programmes at further education colleges, North Energy collaborates with such bodies as the Arctic University of Norway, Young Enterprise, the First Lego League and the *Energy on the loose* knowledge show staged in Tromsø.

Photos: North Energy

North Energy's energy grant

North Energy awards its energy grants, each worth NOK 20 000, to north Norwegian MSc students every autumn. The aim is to help ensure that the region has the expertise required by the energy industry in the future.

Ida Katrine Floer from Kirkenes in Finnmark is one of three north Norwegian students to receive North Energy's grant in 2013 for MSc studies in energy-related subjects.

In her fourth year of the MSc programme on energy, climate and the environment at the University of Tromsø, the 22-year-old is an active student and enjoys the outdoor life. Her leisure interests include hunting, fishing and dog sledding, and she has worked as a volunteer for the Finnmark Race and the Pasvik Trail.

"This is one of the important reasons why I want to remain in northern Norway after I graduate," Floer explains.

She has chosen to specialise in the more engineering-oriented subjects, such as technology, risk and maintenance of projects in the far north.

"I'm very keen to move back to Finnmark then, and to take part in the exciting development of the far north. The region we live in is so rich in natural resources, and I want to learn more about the technology, the methods, the risks and the principles for producing them."

Ida Katrine Floer
Photo: Private

HSE

North Energy will be a good and secure workplace with a positive working environment.

Photo: Kristin Ingebrigtsen

Health, safety and the environment

North Energy will be a good and secure workplace with a positive working environment. Its demanding HSE goals for 2013 were met through systematic risk assessments, measurements of working environment factors and close follow-up of the measures adopted. No serious internal accidents were recorded, and sickness absence was a low 1.3 per cent for 2013 as a whole.

One of North Energy's most important targets is zero discharges of hazardous chemicals to the natural environment. Pursuant to the requirements of the petroleum regulations, the company has actively discharged its compliance responsibility in all the licences where it participates. This means assisting the licence operator and providing a control and audit function under its joint responsibility for operations.

Employees have the opportunity to take exercise during working hours, as well as access to massage and ergonomic advice from a physiotherapist. Many of the company's personnel are very interested in outdoor life, hunting and fishing. The terrain around Alta and Tromsø is an Eldorado for skiers, snowmobiles, dog sledding or hiking. The Alta River is one of the very best in the world for fly fishing, and offers unique angling experiences.

Exploration manager Erik Henriksen (right) struck lucky in the Alta River during the summer of 2013. Photo: North Energy

The multicultural north

North Energy is a multicultural workplace, with nine nationalities represented among its employees.

The company's identify will always be affected by the region from which it springs. And international trade and multicultural encounters indeed run like a red thread through north Norwegian history. Trading links between north-west Russia and northern Norway extend right back to Viking times a millennium ago. Trade with the Pomors from the White Sea area covered large parts of the north Norwegian coasts and fjords in the 19th century. During the union with Denmark, government officials and merchants were recruited northwards from Denmark and northern Germany. The forefathers of today's Kvens in Finnmark emigrated from Finland. As a multicultural workplace, North Energy represents a continuation of this tradition.

Employees at the Alta office. From left: Charles Mong, Alexandra Henderson and Evangelos Kaikas. Photo: North Energy

Explorer who headed north

Inge Heika Hætta Eikelmann was born and raised at Kautokeino in Finnmark, and it was precisely in this county that his interest in geology arose at an early age. He works today as a senior geologist in North Energy.

"When I was a child, the Bieddjuvaggi mines in Kautokeino local authority were in full operation, and geologists hunted for minerals on the plateau throughout the summer," he recalls. "That was very interesting to a small boy, and I've collected rocks for as long as I can remember – sometimes to the despair of my parents, because the stone-filled boxes were both many and heavy."

Like so many other young people from Finnmark, he had to leave home at an early age to attend school. His first stop was the further education college in Alta. This was followed by officers' training school and the University of Tromsø.

"I naturally studied geology at university," Eikelmann says. "At that time, the oil industry hadn't started moving north, and the mining industry wasn't relevant either. So I and many of my fellow students from northern Norway had to head for the 'oil capital' of Stavanger after graduation."

He worked first at Norsk Hydro's research centre in Bergen before getting jobs offshore, including as a well geologist. Acquiring his own family created a need to be home more, and he spent the following years at BP Norge in Stavanger – first in the exploration department and then in the project organisation.

"Working for one of the world's biggest companies was the best education I've had, and the knowledge I gained there has been invaluable for my career," says Eikelmann. "Nevertheless, the chance to help build something, contribute to a start-up phase, appealed to the 'explorer' in me."

The desire to contribute has always been his driving force, and was what drew him north again.

"Helping to create something in and for the north Norwegian region is a challenge which I find motivating. Local roots give a sense of responsibility. As a Sami, I feel it's important to accept this responsibility and ensure the best possible utilisation of natural resources in the region."

Senior geologist Inge Heika Hætta Eikelmann. Photo: Private

"It's always been important among the Sami to reap without damaging nature. That creates a responsibility which I know I can help to fulfil as a geologist in an oil company entrenched in northern Norway."


Photo: Tove Ingebrigtsen

Executive management of North Energy ASA

Erik Karlstrøm
CEO

Karlstrøm is the CEO and was the company's first employee. He came from Germany's RWE group, where he worked for 20 years, most recently as deputy CEO of RWE Egypt with responsibility for exploration. As exploration head in Egypt, Karlstrøm was directly involved in a number of discoveries of gas in the Nile delta. Before that, he spent six years with Mobil in the USA and Stavanger. Karlstrøm has also chaired the exploration committee of the Norwegian Oil Industry Association (now the Norwegian Oil and Gas Association). He graduated in geophysics at the Norwegian Institute of Technology (NTH) in Trondheim, and hails from Talvik in Alta.

Knut Sæberg
CFO

Sæberg was appointed CFO in March 2009 and is responsible for the company's financial functions and ICT. He came from the post of CFO in the Optimera group, where his priorities were restructuring and acquisition. Sæberg was previously CFO of NMD ASA and played a key role in its restructuring following the deregulation of Norway's pharmaceutical market. He held various positions in Shell from 1984 to 1995, including work on establishing Troll as the largest gas project on the NCS until then. Sæberg took an MSc in business economics at Kristiansand in 1984.

Astrid M Tugwell
vice president HSEQ and development

Tugwell joined the company as development vice president in February 2008. She has a solid background in reservoir development and has also held positions in finance and planning, licence management and project management. She started her career with the NPD before joining Shell International and later Norske Shell. During that time, Tugwell took part in a number of European and Norwegian projects which ranged from drilling to developing mature fields, including the development of the Ormen Lange gas field. Her last position with Shell was development manager for the Draugen field on the Halten Bank. Tugwell comes from Øksfjord in Loppa local authority and graduated as a petroleum engineer from Strathclyde University in Glasgow.

Photos: Kjell O Brun

Kristen Berli
vice president exploration and business development

Berli was appointed vice president exploration and business development on 1 June 2013. He comes from PGS, where he was vice president business development in the multiclient department for many years. Before joining PGS, Berli's posts included exploration manager for Hydro in the Tampen area, exploration manager for Saga Petroleum in the UK and Ireland, and head of exploration at the Norwegian Petroleum Directorate. Berli graduated in petroleum prospecting from the Norwegian University of Science and Technology (NTNU), and has a solid background in exploration and geophysics.

Marion Høgmo
vice president administration and HR

Høgmo has been administration vice president since April 2008, with particular responsibility for human resources and administrative processes. Her specialities are organisation, finance, development and management. She served as a bank manager with Sparebank 1 Nord-Norge and Nordea from 2000-08. Høgmo has studied economics, management and education at Finnmark University College and law at the University of Oslo, and has an MBA in administration and management from Buskerud University College.

Kristin Ingebrigtsen
vice president strategy and PA/PR

Ingebrigtsen was appointed vice president for the strategy and PA/PR department on 1 June 2012. She is a former director of the company, and was previously a fund manager at Pronord AS and chief executive of Såkorn Invest Nord AS. Ingebrigtsen has studied economics and marketing, as well as management and finance at Lillehammer and Bodø University Colleges and the Norwegian School of Economics. She has long experience of exports, sales, management and administration from the maritime sector and the Rapp Marine group. She has versatile experience from directorships in various companies.

Photos: Kjell O Brun

Exploration activity and portfolio

Exploration results on the NCS in 2013 were moderately good overall, and mainly positive for the Barents Sea alone.

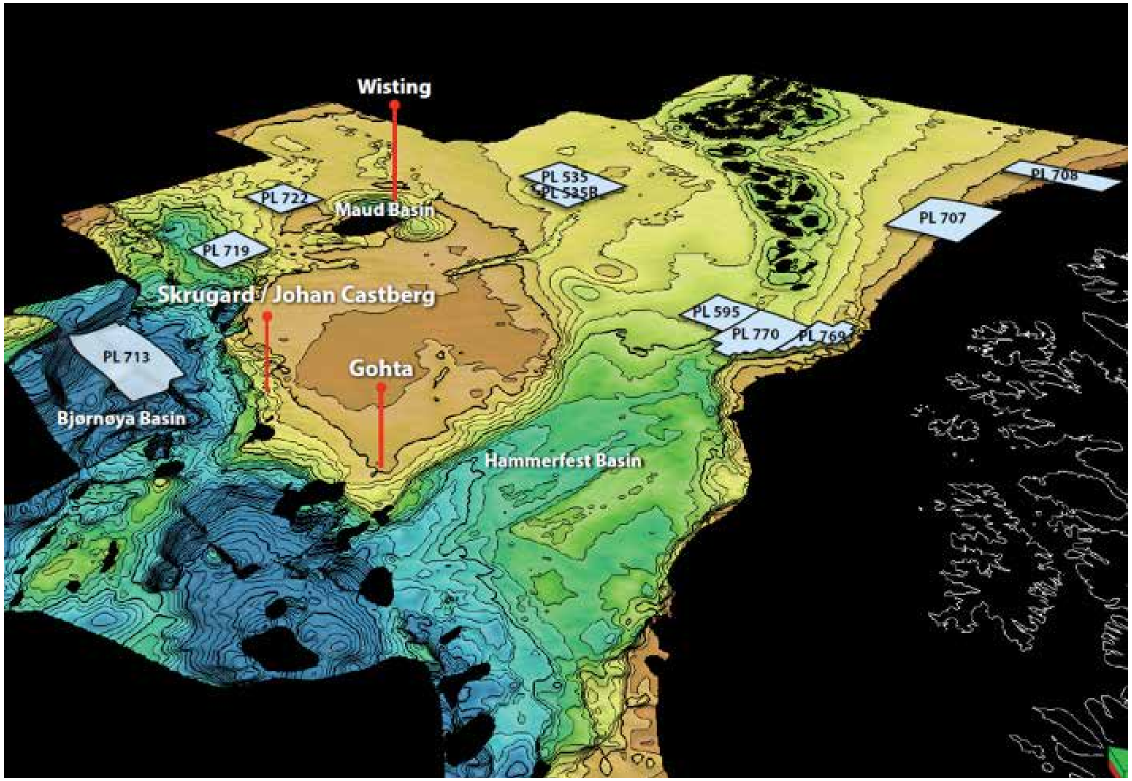
An interesting oil discovery was made by operator Statoil in the Snilehorn structure on the mid-Norwegian continental shelf near the Hyme field. North Energy is a partner in the neighbouring PL 587, which could contain similar prospects.

The Wisting discovery in the Hoop area and the Gotha find on the Lopp High could be very significant for continued exploration in the Barents Sea.

North Energy scored a great success in the 22nd licensing round, when it was awarded no less than six interesting licences in the Barents Sea. Drilling of the second well on the Norvarg structure in PL 535 proved gas as predicted, but its production properties were far poorer than expected.

North Energy devoted extensive work to its application for the 2013 APA round. Its analyses covered the whole NCS, and many different plays were evaluated. RVD was utilised along with standard geological and geophysical methods to reduce risk and as a tool for identifying the most prospective areas. These efforts resulted in the award of six new licences, including two which represented a supplement to existing operator licences.

Work on shifting the licence portfolio towards oil with the aid of RVD and other geophysical methods continued throughout 2013. A number of licences were relinquished. Despite that, the portfolio has been filled up with new exploration opportunities and the number of licences has now reached 27 – the highest level in North Energy's history.



Regional geology of the western Barents Sea, showing oil discoveries and North Energy's licences.

Barents Sea

Several new discoveries have increased the attention being paid to the Barents Sea. The Wisting well provides new knowledge about the potential which could be present in very shallow reservoirs. The prevailing view in the industry earlier was that such shallow prospects had leaked to the surface. But that is not the case with the Wisting structure, and Statoil's Apollo and Atlantis wells in PLs 615 and 615 B just north of Wisting are eagerly anticipated. They could provide further confirmation of whether oil can be preserved in the shallow reservoirs. North Energy is well positioned in the area, with holdings in PLs 719 and 722. A big database, where geological work is combined with new technology, means that North Energy is well equipped to continue work in the Hoop area.

Like North Energy, many companies have nominated blocks in this area for the 23rd licensing round. The deadline for applications in this round is expected to be in the autumn of 2015. North Energy regards the area as very interesting, and is planning more purchases and gathering of relevant data.

A well is due to be drilled in PL 713 by North Energy with operator Statoil and partners Edison and Rosneft during the autumn of 2014. Representing a new play in sandstones at the Cretaceous-Tertiary boundary, this prospect lies west of the Skrugard area.

Lundin's oil discovery in the Gotha structure in PL 492, on the flank of the Lopp High, is very positive for corresponding formations elsewhere in the Barents Sea. North Energy is well prepared for exploring similar reservoir rocks on the Finnmark Platform in PLs 707 (operator Edison) and 708 (operator Lundin). Small quantities of oil and gas have previously been proven in the same area. Both areas are currently being interpreted, and a new well is expected.

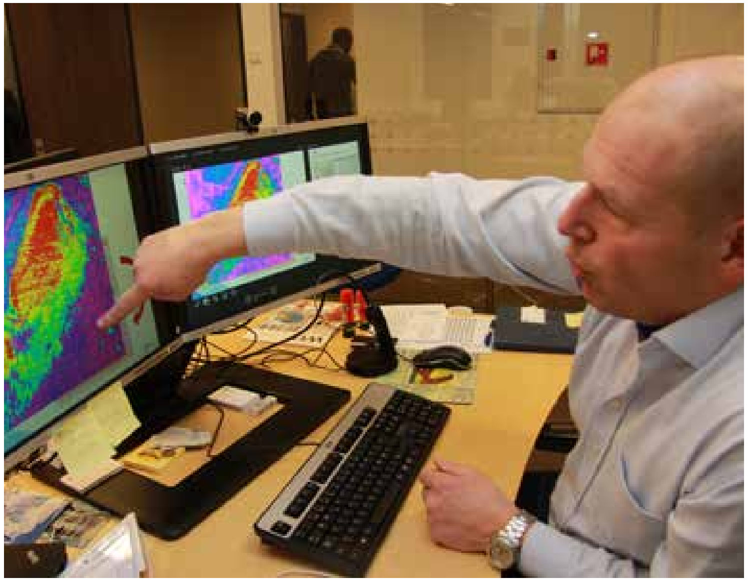
The operator of PL 535 Norvarg is still engaged in final evaluations of the well results. It has downgraded the estimated resources, and a final decision on further development of the licence will be taken in the second quarter of 2014.

North Energy participates in the international Glaciated North Atlantic Margin (Glanam) project, which is assessing the significance of uplift and erosion in the Barents Sea over geological time. A PhD student is working on the issue under the guidance of experienced personnel in the company. An understanding of uplift and erosion is very important for assessing the risk of the various prospects.

Norwegian Sea

A small gas/condensate discovery was made in January 2013 in well 6407/16 S, called Solberg, in the neighbouring licence to PL 590. This could be very significant for assessing the prospectivity of PL 590, where North Energy is operator. In view of a current operation on a corresponding exploration target just south of PL 590, the government has agreed to a six-month postponement of the drill or drop (DoD) decision until 4 August.

Statoil made a substantial oil discovery in the Snilehorn structure just south-east of PL 587, where North Energy has a 40 interest. Preliminary estimates put recoverable resources at 50-100 million barrels. Operated by Edison, the licence is working to include the new information from Snilehorn. A well is planned in the autumn of 2014 in PL 510 on the Halten Bank, where operator Mærsk Oil has 50 per cent, Edison has 30 per cent and North Energy has 20 per cent. The main target is Jurassic sandstones at a reservoir depth close to 4 000 metres. PLs 526 and 385 were relinquished in 2013. Mapping studies are under way in the other licences on the basis of new seismic data.



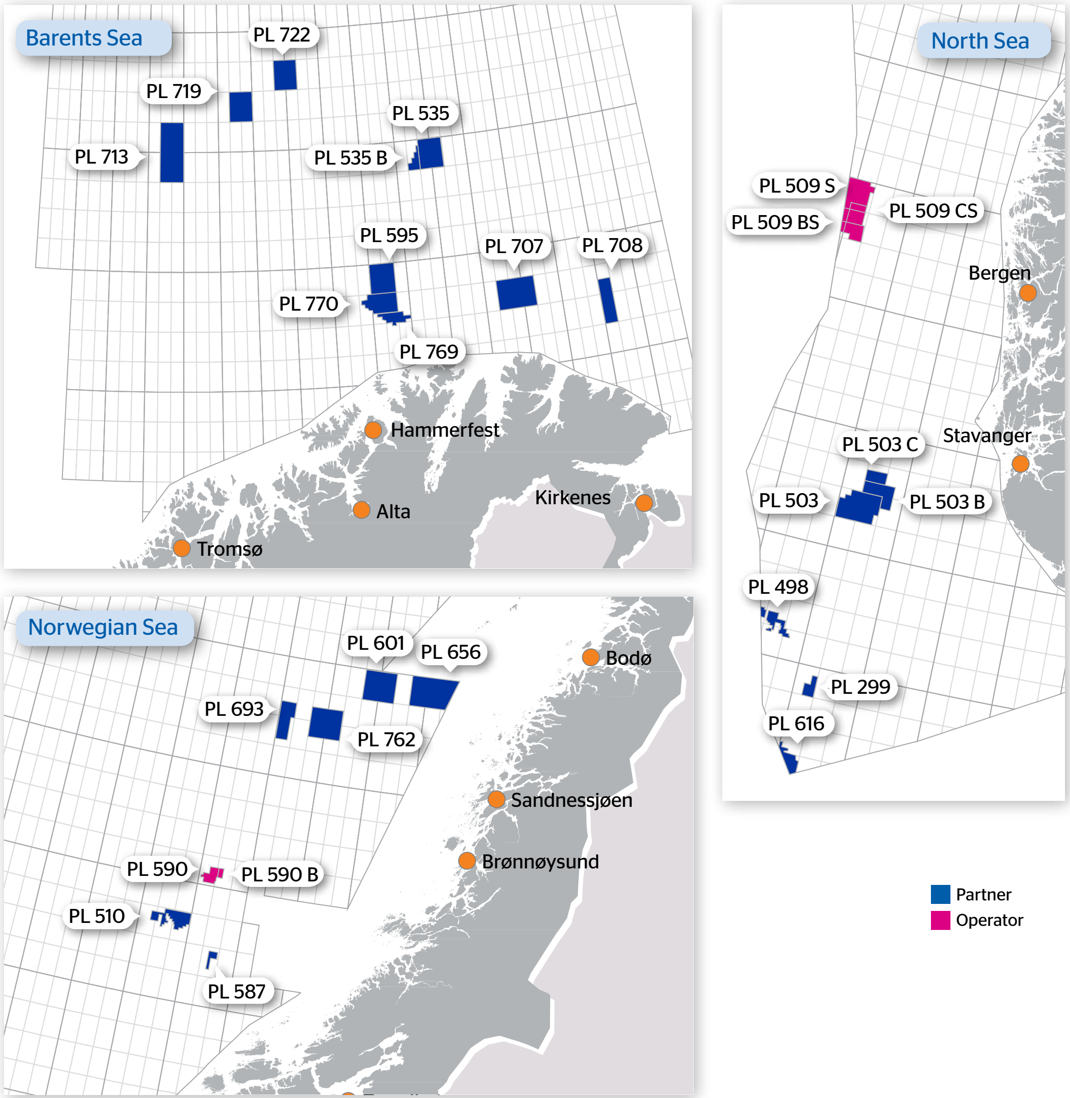
Chief geophysicist Lars Klefstad. Photo: Vidar Kristensen

North Sea

North Energy took over the operatorship of PL 509 in the North Sea during 2013, with a DoD deadline of July 2014. The other partners are Fortis Petroleum Norway AS, Lime Petroleum Norge AS and Rocksource ASA. After the takeover, North Energy has devoted substantial resources to reaching a drilling decision if possible before the summer of 2014. The company was also awarded acreage supplementing PL 509 which it had sought in the 2013 APA round.

North Energy participated in drilling a well on the Frode structure in PL 299. Talisman is operator and the target was Upper Jurassic sandstones. The well was dry, and North Energy decided to withdraw from the licence. It has also resolved to withdraw from PLs 450, 370 and 498 in the North Sea.

Licences



Resource status

Reserves

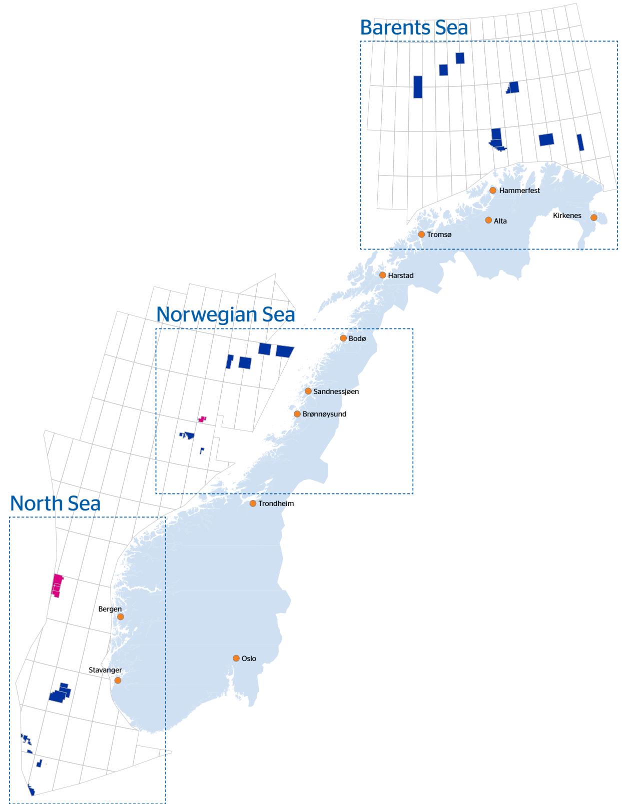
North Energy had no reserves to report at 31 December 2013.

Contingent resources

An appraisal well on the Norvarg structure in PL 535 was drilled during the second and third quarters. This well confirmed the considerable extent of the Norvarg discovery and the presence of mobile gas throughout the Kobbe formation. Neither the wildcat, drilled in 2011, nor the appraisal well identified satisfactory production properties in the reservoir. Combined with the lack of infrastructure in the area, this means that the Norvarg discovery is regarded as non-commercial. However, new technology and additional discoveries in the area could provide the basis for establishing the necessary infrastructure – which could lead in turn to a reappraisal of Norvarg's commercial potential.

Licence portfolio

Licence	Share	Operator	Well
Barents Sea			
PL 535	20%	Total	2013
PL 535 B	20%	Total	A/A
PL 595	40%	Edison	DoD
PL 707	10%	Edison	DoD
PL 708	10%	Lundin	DoD
PL 713	20%	Statoil	2014
PL 719	20%	Centrica	DoD
PL 722	20%	GDF	DoD
PL 769	20%	OMV	DoD
PL 770	20%	Edison	DoD
Norwegian Sea			
PL 510	20%	Maersk	2014
PL 587	40%	Edison	DoD
PL 590	30%	North Energy	DoD
PL 590 B	30%	North Energy	A/A
PL 601	20%	Wintershall	DoD
PL 656	10%	E.ON Ruhrgas	DoD
PL 693	15%	OMV	DoD
PL 762	20%	Noreco	DoD
North Sea			
PL 299	10%	Talisman	2013
PL 498	20%	Lotos	2012
PL 503	12,50%	Lotos	DoD
PL 503 B	12,50%	Lotos	A/A
PL 503C	12,50%	Lotos	DoD
PL 509 S	40%	North Energy	DoD
PL 509 BS	40%	North Energy	DoD
PL 509 CS	40%	North Energy	DoD
PL 616	15%	Edison	DoD



DoD indicates that the licence must take a drill or drop decision.
A/A means that the well is the same as for the licence above.

Photo: Agnieszka Langvann

Board of directors

Johan Petter Barlindhaug
chair
Barlindhaug has established northern Norway's largest consultancy, development and engineering company as well as several small industrial enterprises in the region. During his career, he has headed a number of companies, public bodies and research institutions. He is a national expert on the far north, and a leading Norwegian specialist on the Russian oil and gas industry. Barlindhaug has also been responsible for several impact assessments at the interface between fishing, maritime transport and petroleum. He has been appointed a commander of the Royal Norwegian Order of St Olav for his contributions to society.

Harriet Hagan
director
Hagan is general manager of Origo Kapital AS and has previously held a number of executive posts in companies large and small. Through her position in Origo, she was involved with the management of North Energy from an early stage. Hagan joined Origo in 2003 after serving as chief executive of Ishavskraft for five years. She has an MSc in business economics from the Norwegian School of Economics, and her experience includes Statoil's marketing department. Hagan has broad boardroom experience from many directorships, and she has also worked as a company adviser.

Anders Onarheim
director
Serving as chief executive of companies in the Carnegie Group investment bank for more than 16 years has given Onarheim extensive expertise in management, business development and capital markets. He has earlier worked internationally for Goldman Sachs and Merrill Lynch, and has held a number of directorships in various investment companies. Onarheim has an MBA from Washington University in St Louis. He currently holds directorships and executive posts with AB Investment AS, Spitsbergen AS, Reach Subsea ASA, Norsk Crystal AS, Arkipel AS, Ly Forsikring AS, Bio Aktiv Foods AS and BW LPG Ltd. Onarheim is a Norwegian citizen and resident in Bærum, Norway.

Heidi M Petersen
director
Petersen is self-employed. She has an MSc from the University of Trondheim (now the Norwegian University of Science and Technology). From 2000 to July 2007, she served as chief executive of Future Engineering AS and Rambøll Olje & Gass AS (Future was sold to Rambøll Gruppen AS in 2004). Petersen was with Kværner Oil & Gas from 1988, where she worked as an engineer, project manager and department manager on both offshore and land-based assignments before becoming head of Kværner Oil & Gas in Sandefjord in 1997. She headed a management buy-out there which led to the formation of Future Engineering in 2000. Petersen has broad experience of boardroom work at industrial, petroleum, energy supply and financial companies. She is now chair of Sandefjord Airport and TS Group (oil-based services), and a director of Arendal Fossekompani ASA, Eitzen Chemicals ASA, Calora Subsea AS and Glamox ASA.

Jogeir Romestrand
director
Romestrand has held various executive positions in the oil service industry over 30 years, including a number of directorships. He is the founder and chair of the privately owned Rome AS investment group. His current directorships and executive posts include chair and founder of Impact Engineering AS, a director of Eco Stim Energy Solution Inc, chair of the nomination committee at EMGS ASA and Havila ASA, and director of Neptune Offshore. Romestrand is a Norwegian citizen and resident in Ulsteinvik, Norway.

Alexander Krogh
worker director
Krogh has 10 years of international experience from the container and port departments at A P Møller-Mærsk A/S as finance manager and analyst in Japan, Korea, Romania, the Netherlands and Denmark. He has been with North Energy since 2010 as finance manager, investor contact and contract manager. He has economics degrees from the Norwegian School of Economics and the Richard Ivey School of Business, and is a chartered financial analyst. Krogh is a Danish citizen and resident in Alta.

From left: Alexander Krogh, Heidi M Petersen, Anders Onarheim, Johan Petter Barlindhaug, Harriet Hagan and Jogeir Romestrand. Photo: Egil Hansen

Investor information

North Energy's goal is to create added value and to provide a good return for its shareholders over time. Emphasis is placed on openness and accessibility in its dialogue with the investor market.

North Energy is listed on the Oslo Axess exchange under the ticker code NORTH. Its share price remained virtually unchanged during the year, rising from NOK 3.32 to NOK 3.35 per share. The market value of the company increased from NOK 135.5 million at 31 December 2012 to NOK 136.7 million at the end of 2013. Earnings per share in 2013 were negative at NOK 3.67. The negative development in value can be attributed primarily to the accounting impairment of production licence (PL) 535 Norvarg, which is detailed earlier in this annual report.

The company had 40 813 448 shares at 31 December 2013. Outstanding shares in the company remained unchanged during the year. North Energy has only one share class, and each share has one vote at the general meeting and carries an equal right to dividend. The company has not paid a dividend to date and, because of the investment programme and its financing, does not expect to do so for some years to come. The company's goal is to give the shareholders a good return over time by creating value and thereby contributing to a positive development of the share.

Owners

North Energy had 871 shareholders at 31 December 2013, and the 20 largest shareholders held 57.7 per cent of all the shares. The largest shareholders were unchanged from 31 December 2012, in other words THS Partners LLP, Elliott International LP, JPB AS, SKS Eiendom AS and Origo Kapital AS. In addition, Solan Capital AS acquired a 3.6 per cent holding in the course of the year.

North Norwegian ownership remained strong, at 39 per cent of the shares in the company. This represented an increase of four percentage points during 2013.

Analyst coverage

A number of analysts monitor the company's share on a continuous basis, and an overview of their contact details can be found at www.northenergy.no/investor.

- Swedbank First Securities
- Arctic Securities
- Sparebank1 Markets
- Carnegie
- DNB Markets
- Pareto
- R.S. Platou Markets
- Enskilda
- Nordea Markets

The largest shareholders in North Energy

The largest shareholders in North Energy at 31 December 2013

Shareholder	Holding	% share
JPB AS	2 783 423	6.82%
SKS EIENDOM AS	2 374 920	5.82%
EUROCLEAR BANK S.A./N.V. ('BA')	2 356 500	5.77%
SOLAN CAPITAL AS	1 410 073	3.45%
ORIGO KAPITAL AS	1 343 569	3.29%
BNY MELLON SA/NV	1 255 000	3.07%
HSBC BANK PLC	1 100 000	2.70%
THE NORTHERN TRUST CO.	1 031 270	2.53%
IKM INDUSTRI-INVEST AS	1 008 648	2.47%
OM HOLDING AS	969 819	2.38%
VERDIPAPIRFONDET WARRENWICKLUND NO	954 670	2.34%
ONSHORE GROUP NORDLAND AS	933 340	2.29%
DELPHI NORGE	870 988	2.13%
HAMNINGBERG HOLDING AS	815 605	2.00%
CACEIS BANK FRANCE	796 571	1.95%
SPITSBERGEN AS	785 931	1.93%
THE LIVERPOOL LP	780 000	1.91%
KAPNORD FOND AS	727 895	1.78%
NINERIK AS	629 543	1.54%
STATE STREET BANK AND TRUST CO.	606 297	1.49%
Total 20 largest shareholders	**23 534 062**	**57.66%**
Other shareholders	17 279 386	42.34%
Total	**40 813 448**	**100.00%**

New shareholders from capital expansion

The company carried out a capital expansion of NOK 285 million at a price of NOK 4.00 per share in January. This increased the number of issued shares in the company by 71 250 000, from 40 813 448 shares to 112 063 448. The capital expansion was carried out with strong participation from existing shareholders and new industrial investors.

Of the total 112 063 448 shares issued by the company, some 38 per cent are owned by the shareholders who became involved through the capital expansion. The shareholders who owned shares before the issue control 62 per cent. The 10 largest shareholders in the company own about 66 per cent of the shares.

An updated overview of the 20 largest shareholders in the company can be found at www.northenergy.no/investor.

Among the largest participants in the expansion, the following have been made public through stock exchange announcements:

THS Partners LLP	12 500 000 shares
Rex Technologies Management Ltd	9 000 000 shares
Odin Offshore Fond	8 750 000 shares
Isfjorden AS	7 000 000 shares
Rex International Holding Ltd	6 000 000 shares
EMGS ASA	5 000 000 shares

Directors' report 2013

The business
North Energy ASA was established on 4 September 2007. Its business purpose is to become a leading player in the north Norwegian oil and gas industry. Its primary focus is on the Barents Sea, but the company will also involve itself in commercially interesting prospects in the Norwegian and North Seas.

North Energy's head office is located in Alta, with a branch office in Oslo. Small offices with leading-edge regional expertise have also been established in Stavanger and Tromsø.

Important events
North Energy participated in exploration drilling in PL 299 Frode during the second quarter. No hydrocarbons were identified. An appraisal well was also drilled in PL 535 Norvarg during the second and third quarters. This well confirmed the considerable extent of the Norvarg discovery and the presence of mobile gas throughout the Kobbe formation. Neither the wildcat, drilled in 2011, nor the appraisal well identified satisfactory production properties in the reservoir. Combined with the lack of infrastructure in the area, this means that the Norvarg discovery is regarded as non-commercial. However, new technology and additional discoveries in the area could provide the basis for establishing the necessary infrastructure – which could lead in turn to a reappraisal of Norvarg's commercial potential.

The company has been active in applying both in the regular licensing rounds and for the awards in predefined areas (APA). It was awarded six new licences in the Barents Sea from the 22nd round, which represented a substantial strengthening of its position in the attractive areas of the northern NCS. These include PL 713 in the Bear Island Basin north-west of Skrugard, PL 719 north of Skrugard and Havis, and PL 722 in the Maud Basin on the Bjarmeland platform. The awards also embrace PLs 707 and 708 close to the coast on the Finnmark East platform and PL 535 B, which is an extension of the Norvarg licence.

Six licences, including two operatorships, were also secured by the company from the 2013 APA round. These embrace two licences each in the North, Norwegian and Barents Seas.

North Energy has also developed its business operations through the purchase and sale of licence interests. An agreement was signed on 17 April with Lime Petroleum Norway on the sale of interests in four licences in the North and Norwegian Seas. The total sale price was NOK 28.2 million. Furthermore, the sale of 10 per cent shares in PLs 299 and 590 to Spike Exploration Holding was announced on 3 May. These licences lie in the North and Norwegian Seas respectively. The transfer of a 40 per cent holding in and the operatorship of PLs 509 and 509 S from Wintershall AS to North Energy was announced on 26 November. These licences are located in the North Sea and have a decision to drill during the first half of 2014.

Following these awards and transactions, North Energy has 10 licences in the Barents Sea, eight in the Norwegian Sea – including two operatorships – and nine in the North Sea – including two operatorships. North Energy's total portfolio accordingly comprises 27 licences on the NCS. In terms of resources, the Barents Sea clearly comprises the company's largest region.

A collaboration agreement was entered into by North Energy on 20 February 2013 with Rex Oil and Gas Limited on the use of the Rex Virtual Drilling (RVD) technology for evaluating exploration prospects. This solution is based on interpreting resonance from oil, and draws on two- and three-dimensional seismic surveys. North Energy introduced RVD as an evaluation method during the year in addition to traditional seismic interpretation, which has affected the composition of the portfolio and the priority given to the various licences.

The board also approved credit agreements with TGS Nopec and Rex Oil & Gas on 28 February 2013, involving frameworks of NOK 200 million and NOK 100 million respectively. These credits can be used only to acquire data, analyses and services from the respective lenders. Running for four years, the agreements give the lenders the right but not the obligation to convert the debt to shares at three predetermined times. The conversion price has been set at NOK 8, and interest on the debt at eight per cent. The agreements involve no buying obligation for North Energy, and possible debt can be redeemed at the termination of the agreements or earlier if desirable. These agreements represent a substantial strengthening of North Energy's liquidity, which was important ahead of the award of exploration commitments in the 22nd round. They were approved by an extraordinary general meeting on 22 March 2013.

A share issue was conducted in January 2014 comprising 71.25 million new shares at a price corresponding to NOK 4 per share, which represented a premium on the market price. The issue accordingly provided gross receipts of NOK 285 million. It was directed at large existing shareholders and selected new investors. At the same time, North Energy secured a convertible loan of NOK 75 million from EMGS, which was used to acquire the latter company's library of electromagnetic (EM) survey data in the Barents Sea. EMGS has the right but not the obligation to convert the debt to shares in North Energy after four months. That part of the debt which has not been converted into shares at six months falls due for redemption. The conversion price is set at NOK 4.15 and interest on the debt at six per cent.

The agreements entered into with EMGS and Rex permit the application of EM and RVD technologies which are particularly well suited to North Energy's core region in the Barents Sea. This technological focus, combined with the financial strength secured by the company, mean that it has good opportunities to exploit and continue developing its strong position on the northern NCS.

The share issues were approved by an extraordinary general meeting on 13 February 2014.

Going concern

Pursuant to section 3-3a of the Norwegian Accounting Act, confirmation is hereby given that the going concern assumption is realistic. That assumption rests on the company's financial position, including the share issue conducted after the balance sheet date, as well as profit forecasts for 2014 and the company's long-term strategic predictions for the years to come.

Comments on the annual financial statements

The financial statements have been compiled in accordance with the rules of the Norwegian Accounting Act and the International Financial Reporting Standards (IFRS) approved by the European Union. The financial statements to which the comments below relate are for the North Energy group, comprising North Energy ASA and 4Sea Energy AS.

The board is not aware of any significant considerations which affect the assessment of the group's position at 31 December 2013, or the net result for the year, other than those presented in the directors' report and the financial statements.

The pre-tax loss was NOK 716.3 million, compared with NOK 623.2 million in 2012. This development reflects NOK 431.4 million before tax in impairment of previously capitalised costs for PL 590 Norvarg.

Consolidated revenues came to NOK 98.6 million in 2013, representing gain on the sale of licence interests. This represents an increase of NOK 51.7 million from 2012.

Payroll costs for 2013 declined by NOK 5.7 million from the year before and came to NOK 51 million. The reduction reflects efficiency improvement measures implemented during the year.

Exploration and licence expenses increased from NOK 540.1 million in 2012 to NOK 696.5 million in 2013. This rise reflects the impairment of PL 590 Norvarg. The company also participated in the drilling of PL 299 Frode, which is expensed at NOK 71.3 million. A total of NOK 108.8 million was spent on acquiring seismic data and seismic interpretation services in 2013.

As a result of efficiency improvements, other operating costs were reduced from NOK 41.1 million in 2012 to NOK 33.4 million.

Net financial expenses rose by NOK 3.1 million from 2012, primarily because of reduced interest income, and came to NOK 25 million.

The net loss for 2013 was NOK 149.7 million, compared with NOK 111.5 million the year before.

Total assets are valued at NOK 529.3 million in the balance sheet at 31 December 2013, a reduction of NOK 344 million from 2012. This decline is a consequence of the expensing of PL 590 Norvarg, which was capitalised at NOK 261.2 million at 31 December 2012. That affected the company's fixed assets, which were reduced from NOK 304.2 million to NOK 145.7 million at 31 December 2013. The biggest item among fixed assets comprises a deferred tax asset of NOK 101.6 million. Deferred tax asset was previously lumped together with deferred tax at NOK 111.8 million for 2012 under non-current liabilities.

Current assets totalled NOK 383.6 million, down from NOK 569.1 million in 2012 because of a somewhat lower level of exploration activity. That in turn reduces the tax credit due under the refund scheme. This tax credit had declined from NOK 489.9 million to NOK 352.2 million at 31 December 2013.

Consolidated cash in hand totalled NOK 15 million at 31 December.

Equity came to NOK 260.6 million at 31 December, compared with NOK 409.9 million in 2012. The equity ratio nevertheless rose from 47 to 49 per cent.

Non-current liabilities in the company were reduced from NOK 125.1 million in 2012 to NOK 54.7 million, primarily because of the derecognition of NOK 111.8 million in deferred tax as a result of expensing PL 535 Norvarg. A convertible loan of NOK 40.7 million to TGS Nopec and Rex Technologies Management was capitalised in 2013.

Current liabilities fell from NOK 124.3 million in 2012 to NOK 214 million because of a reduction in the draw-down on the exploration credit, lower supplier credit and smaller commitments in licences and the rest of the company.

Cash flow from operating activities came to NOK 186.7 million, compared with NOK 277.9 million in 2012. Investment activities yielded a negative cash flow of NOK 162 million, up by NOK 102.7 million from 2012. Net cash flow from financing activities was negative at NOK 38.2 million, compared with NOK 18.9 million in 2012.

The board regards the company's financial position as satisfactory.

Future developments

The board takes a positive view of the fundamental prospects for the upstream market in the oil and gas industry.

Since its formation in 2007, North Energy's main goals have related to building up a strong organisation, being awarded or farming into good licences, executing exploration programmes and eventually assessing investment in development and production. Another of the company's aims is to contribute to increased regional value creation as the Norwegian oil industry moves northwards. This can best be achieved through operatorships in licences which are in an active phase for drilling, development and production.

North Energy has introduced new and even more demanding evaluation methods for exploration prospects over the past year by adopting the EM and RVD technologies. This has resulted in fairly substantial changes to the portfolio and a period of lower drilling activity. The company is now well under way with preparations for a new drilling campaign, and the board looks forward to spudding new wells in the second half of 2014.

In addition to active management of its existing portfolio, North Energy has ambitions to continue securing good holdings from forthcoming licence rounds – both the annual awards in mature areas and the numbered rounds for frontier parts of the NCS. The board takes the view that the collaboration with EMGS and the Rex companies strengthens North Energy's position for forthcoming licence applications.

Several significant oil and gas discoveries in the Barents Sea in recent years have helped to increase interest in licences in these waters. North Energy's holdings in the area are well positioned, and the board has great expectations for the outcome of the current evaluation process. While strengthening its presence in the Barents Sea, North Energy will also exploit future opportunities in the Norwegian and North Seas.

Forward-looking statements reflect the board's present view of future circumstances and are naturally uncertain, since new developments could easily lead to significant changes.

Corporate governance

Corporate governance in North Energy is based on the Norwegian code of practice for corporate governance. A separate status report related to the code has been included in this annual report. Any non-compliance with the code is specified and explained in the status report.

North Energy's corporate governance builds on the Norwegian oil industry's standards for internal control, and the group was qualified as a licensee on the NCS in 2008 and as an operator in 2009. Systems for internal control have subsequently been maintained and further developed, not least with regard to the demanding phase North Energy faces as a drilling operator. The company secured a stock exchange listing in February 2010, and the group built up systems and routines ahead of that event to handle the demands made on listed companies in terms of accurate financial reporting within specified deadlines.

The board intends to take account of all relevant factors in the company's overall risk picture. In this way, it seeks to ensure that the collective operational and financial exposure is at a satisfactory level.

North Energy's articles of association contain no provisions which wholly or partly exceed or restrict the provisions in chapter 5 of the Norwegian Public Companies Act.

A number of considerations which collectively ensure a good and broad composition have been taken into account when electing the board. These include an appropriate gender distribution, good strategic, petroleum technology and accounting expertise, a good division between owner-based and independent candidates, and relevant representation of company employees. The board functions collectively as an audit committee. No sub-committees have otherwise been appointed.

Instructions have been developed and adopted for the chief executive, the board and the company's nomination committee. The instructions for the board specify its principal duties and the responsibilities of the chief executive towards the board, as well as guidelines for handling matters between the board and the executive management. The instructions for the nomination committee specify its mandate and provide guidelines on its composition and mode of working.

The company's articles of association provide no guidance on the composition of the board, other than that it must comprise three to nine directors. The articles do not authorise the board to purchase the company's own shares or to issue shares. At the annual general meeting of 29 May 2013, the board was mandated to increase the share capital by up to 10 per cent. This mandate is unused, and expires with the 2014 AGM.

Risk assessments

Overall objectives and strategy

North Energy's financial risk management is intended to ensure that risks of significance for the company's goals are identified, analysed and managed in a systematic and cost-efficient manner. The company is exposed to financial risk in various areas, particularly liquidity risk and access to the necessary liquidity. After that comes the exchange rate between US dollars and Norwegian kroner as well as interest rates. The liquidity risk has been substantially reduced by the successful private placement in February 2014. However, the foreign exchange risk is limited since borrowings to date have not been made in foreign currencies. Monitoring of risk exposure and assessment of the need to deploy financial instruments are pursued continuously.

Liquidity risk

North Energy's core business is exploration for oil and gas on the NCS. Each drilling operation in which the company participates is expensive, and each well carries a substantial risk of being dry. The group's on-going financing needs are forecast, and the level of activity is tailored to the available liquidity.

The company's operations in this phase are primarily financed from equity. It also made use during 2013 of the convertible loan agreements with TGS Nopec and Rex Technology for purchasing seismic data and evaluating prospects, where the total convertible loan balance is currently NOK 23 million. A NOK 75 million convertible loan agreement with EMGS for the purchase of EM data was entered into on 20 February 2014.

Loans have otherwise been raised by North Energy in connection with bridge financing to cover the state's exploration costs until these are refunded through the tax settlement, which occurs 12-24 months after the costs have been incurred. North Energy's liquidity was significantly strengthened through a NOK 285 million share issue approved by an extraordinary general meeting of 13 February 2014.

Foreign exchange and market risk

North Energy is not involved in producing fields and accordingly has no direct exposure to large oil price fluctuations. The company entered into several short-term futures contracts to reduce its foreign exchange risk and thereby its operational market risk.

Interest rate risk

The company is exposed to interest rate changes for its bridge financing, which normally has an average term of 18 months, since this financing carries floating interest rates. The company has not entered into hedge contracts to restrict the interest risk. Interest rates on the convertible loan agreements with TGS Nopec, Rex Technology Management and EMGS are fixed. Furthermore, fluctuations in interest rates may affect investment opportunities in future periods.

Credit risk

The risk of bad debts is considered low, since the great bulk of the company's receivables in this phase relate to the Norwegian government and comprise the tax value of exploration costs.

Operational risk

North Energy is an enterprise where operational risk is closely related to its expertise. The company accordingly devotes attention to developing its expertise and organisation, and to its management systems. Furthermore, it will depend as an exploration company on the political desire to exploit resources in interesting areas.

HSE and the natural environment

North Energy's core business involves the development of profitable and sustainable petroleum operations in northern Norway. In order to succeed here, it is important that the company also provides a secure workplace with a good working environment for employees. Many demanding HSE targets were set for 2013, and these were met through systematic risk assessments, monitoring of working environment factors and close follow-up of risk-reducing measures. The company has not registered any serious accidents internally this year. Sickness absence was measured as 1.3 per cent for 2013, which is regarded as very low.

An important goal is zero harmful discharges of chemicals to the natural environment. In all the licences in which it has participated, the company has discharged its compliance duty actively and in line with the requirements of the petroleum regulations. This involves assisting the operator in each licence, while the regulations give the partners a controlling and auditing role through their shared responsibility for operations. North Energy was a partner in the PL 299 Frode wildcat in the North Sea and the PL 535 Norvarg appraisal well in the Barents Sea. Both these operations were implemented without serious harm to personnel and equipment, but an unplanned discharge of 52 litres of hydraulic oil was unfortunately recorded from the *Leiv Eiriksson* rig en route to Norvarg. This incident was reported to the Petroleum Safety Authority Norway.

North Energy's goal is that its operations will generate robust spin-offs in northern Norway, and it will accordingly devote particular attention to the special challenges faced in the far north. In that context, the company has contributed to the development of oil-spill clean-up response close to land, where the fishing fleet plays an active role. Efforts have also been made to manifest the challenges faced by search and rescue operations when activity moves further north in the Barents Sea. In licence applications and through its participation in Intsok's Runo project, North Energy has argued for the development of Bear Island as a fully fledged emergency response base for the central Barents Sea.

The company's offices in Alta, Tromsø, Oslo and Stavanger have a modern design and outfitting, with good air conditioning and a high level of computer security. Conditions for energy-efficient office operation are good, with energy-saving ventilation, night temperature reduction and time-controlled lighting at all the company's premises. Extensive use is made of modern video/audio conferencing between the offices, in part to reduce travel. Waste is sorted at each office to contribute to environmental targets set by the local authorities.

Research and development

The company's commitment to research and development (R&D) is intended to support its operations and help it reach its operational and strategic goals. North Energy is still a young company, where operations relate primarily to exploration, emergency preparedness and building up expertise. This also influences its R&D commitment, which included further development of collaboration with research teams and universities in Norway and St Petersburg during 2013.

Human resources and equal opportunities

North Energy had 40 employees at 31 December. Two consultants have also been hired to strengthen the company's exploration operations.

The company has a multicultural working environment, with nine nationalities represented in the workforce. When making new appointments, it will continue to facilitate diversity in, but not confined to, gender, cultural background and experience. Remuneration is determined in accordance with the content of the work and the employee's qualifications. The remuneration of the executive management is described in the notes to the financial statements.

North Energy's goal is a workplace where equality of opportunity prevails between men and women. Its policy is that nobody should be subject to discriminatory treatment on the grounds of gender. Women account for 25 per cent of the workforce. The executive management comprises six people, including three women, while the board has five shareholder-elected directors and one worker director elected by and from among the employees. In addition, the board has an observer elected by and from among the workforce. Two of the shareholder-elected directors are women. The company will continue to pay attention to gender equality, and wishes to maintain a good gender balance.

Corporate social responsibility (CSR)
The board of North Energy gives emphasis to a positive contribution being made by the company to those sections of society affected by its operations, while simultaneously looking after the interests of the owners. The company follows this up by integrating social and environmental considerations in its strategy and day-to-day operations. To emphasise its CSR, the company has developed a policy document which is published on its website www.northenergy.no.

Ownership
North Energy had 871 shareholders at 31 December. The two largest were the UK funds Elliot and THS Partners. Its biggest Norwegian shareholders are JPB AS with 6.8 per cent of the shares and SKS Eiendom with 5.8 per cent.

The ownership picture changed somewhat as a result of the capital increase of NOK 285 million and the issue of 71.25 million new shares. But THS Partners and Elliot are still among the company's largest shareholders. The first of these is now the biggest, with a 13.7 per cent holding.

Shareholders introduced to the company through the issue own about 38 per cent of North Energy's roughly 112.1 million shares, with those who were already shareholders controlling 62 per cent.

The 10 largest shareholders own some 66 per cent of the shares. This means that ownership of North Energy remains diversified after the issue.

Corporate governance
Corporate governance is the board's most important instrument for ensuring that the company's resources are managed in an optimum manner and contribute to long-term value creation for shareholders. In this connection, the board would refer to the separate presentation of the company's corporate governance in this annual report.

Net loss and coverage of net loss
North Energy had no distributable equity at 31 December. The board proposes that the net loss of NOK 150.1 million be transferred to uncovered losses.

Alta, 19 March 2014

Johan Petter Barlindhaug
Chair

Harriet Hagan
Director

Heidi M Petersen
Director

Anders Onarheim
Director

Jogeir Romestrand
Director

Alexander Krogh
Director

Erik Karlstrøm
CEO

Corporate governance

Pursuant to section 3, sub-section 3b of the Norwegian Accounting Act, North Energy is required to include a description of its principles for good corporate governance in the directors' report of its annual report or alternatively refer to where this information can be found. The Norwegian Corporate Governance Board (NCGB) has issued the Norwegian code of practice for corporate governance (the code), which can be found at www.nues.no. Observance of the code is based on the "comply or explain" principle, which means that companies must explain either how they comply with each of the recommendations in the code or why they have chosen an alternative approach.

The Oslo Stock Exchange requires that listed companies provide an annual explanation of their corporate governance policy in line with the applicable code. Current requirements for companies listed on the Oslo Stock Exchange can be found at www.oslobors.no.

The following presentation of corporate governance has the same structure as the code, and follows the code's structure with 15 main subjects.

1. Implementation and reporting on corporate governance

North Energy's decisions and actions will be based on its core values:

- at the forefront
- competent
- bridge-builder
- a fearless voice in the north.

It is the executive management's job to ensure that the areas of responsibility, individually and collectively, are prioritised on the basis of these core values and in accordance with the code. The company has drawn up guidelines on ethics and corporate social responsibility, which are available on the company's website at www.northenergy.no.

2. The business

North Energy's business purpose is to pursue exploration for as well as development and production of oil and gas on the NCS and in the Russian sector of the Barents Sea, and to be able to own or participate in companies which conduct similar activities, including through subsidiaries. The company's vision is to develop a leading and profitable oil and gas company which contributes actively to industrial value creation in the far north. This will be achieved through the following main strategies:

- acquiring and being awarded the best licences in the northern part of the Norwegian North Sea and the Barents Sea
- ensuring an adequate capital base to finance the company through exploration, development and into production
- ensuring access to good investment opportunities by being an attractive partner for government and leading oil companies
- being a credible and attractive partner for important stakeholders, such as suppliers/contractors, the fishing industry and environmental interests
- establishing a basis for long-term value development and spin-offs in the far north.

North Energy's articles of association specify clear parameters for its operations, while visions, goals and strategies are enshrined in its management system. Work to prepare the company for operator assignments on the NCS continued during 2013, and updates to procedures and process descriptions have been made in that connection.

Further information on the company's articles of association can be found at www.northenergy.no.

3. Equity and dividends

Since its formation in 2007, North Energy has been solely an exploration company without revenues except from the sale of licence interests. Its activities are primarily financed through equity, which has been significantly strengthened through the share issue approved by the extraordinary general meeting of 13 February 2014. This involved the issue of 71.25 million new shares at a subscription price of NOK 4.00. The company has entered into loan agreements with TGS Nopec, Rex Oil & Gas and EMGS under which the lender has the right but not the obligation to convert debt to shares. The agreements with TGS and Rex have frameworks of NOK 200 million and NOK 100 million respectively. They give North Energy the full right to redeem the debt at any time. The lender can convert at three specified times, the first of which is in March 2015. The agreed conversion price is NOK 8.00 per share, and the interest rate on the debt is eight per cent. The agreement with EMGS has a framework of NOK 75 million. EMGS can convert for the first time in June 2014. That part of the debt which has not been converted two months thereafter must be redeemed by the company. The conversion price is NOK 4.15 and the interest rate is six per cent. Furthermore, the board was mandated by the annual general meeting in 2013 to issue new shares up to a limit of 10 per cent of the existing number of shares. This mandate is valid until the next AGM, but has not been utilised.

The company's equity totalled NOK 261 million at 31 December. That represents 49 per cent of its total capital. Financial liquidity is regarded as satisfactory in relation to the company's future obligations. Cash, cash equivalents and provision for tax refunds, less interest-bearing debt, totalled NOK 164 million at 31 December. In addition, North Energy has an overdraft facility of NOK 950 million, of which NOK 170 million had been drawn down at 31 December. North Energy has not paid a dividend and does not expect to make any dividend payment in the next few years.

4. Equal treatment of shareholders and transactions with close associates

Should North Energy be a party to a transaction with close associates of the company or with companies in which directors or senior executives, or their close associates, have a significant interest, directly or indirectly, the parties concerned must immediately notify the board. All such transactions must be approved by the chief executive and the board and, where required, also be reported to the market. North Energy made no investment in its own shares during 2013.

5. Freely negotiable shares

The North Energy share is listed on the Oslo Axess exchange. All the shares are freely negotiable. The articles of association impose no restrictions on the negotiability of the share.

6. General meetings

The company's general meetings in 2013 were held in accordance with the Public Companies Act.

The general meeting is North Energy's highest authority. The board endeavours to ensure that the general meeting is an effective forum for communication between the board and the company's shareholders. As a result, the board makes provision for the highest possible participation by the company's owners at the general meeting. Notice of the meeting and supporting documentation for items on the agenda are made available on the company's website no later than 21 days before the general meeting. Provision is also made to vote in advance of the company's general meeting. Elections are organised in such a way that it is possible to vote separately for each candidate to serve on the company's elected bodies. Shareholders who cannot attend the general meeting in person are able to appoint a proxy to vote on their behalf. Proxy forms have been drawn up which allow the proxy to be instructed how to vote on each agenda item.

The board determines the agenda for the general meeting. However, the most important items on the agenda are dictated by the Public Companies Act and the company's articles of association. Minutes of the meetings are posted to the company's website the day after the general meetings have been held at the latest.

7. Nomination committee

The job of the nomination committee is to submit recommendations, with justifications, to the general meeting on the election of shareholder-elected directors and to nominate the chair of the board. Furthermore, the committee will submit proposals for the remuneration of directors and recommend members of the committee. Establishment of the committee is stipulated in the articles of association, and its work is regulated by instructions adopted by the general meeting. Nomination committee members are independent of the board and the company's executive management.

Members of the committee receive a fixed remuneration which is not dependent on results. The general meeting decides on all recommendations made by the committee.

8. Corporate assembly and board of directors: composition and independence

North Energy has chosen not to have a corporate assembly.

The board is organised in accordance with the Public Companies Act, with two women and three men as shareholder-elected directors. All have broad experience. One of these directors is elected independently of the company's shareholders. In addition, one director and an observer are elected from and by the company's employees. Neither of them belong to the executive management. The directors represent both industry-specific and professional expertise from national and international companies. More information on each director is available at www.northenergy.no. Shareholder-elected directors are elected for two-year terms. Elections are conducted in such a way that new directors can join the board every year.

North Energy takes the view that all its directors are independent of the company's executive management and significant business partners. At present, five of the directors own shares directly or indirectly in North Energy. No director holds options to buy further shares.

9. The work of the board of directors
The board's work is regulated by instructions. Its duties consist primarily of managing North Energy, which includes determining the company's strategy and overall goals, approving its action programme and ensuring an acceptable organisation of the business in line with the company's articles of association. The board can also determine guidelines for the business and issue orders in specific cases. The board must look after North Energy's interests as a whole, and not act as individual shareholders.

A clear division of responsibility has been established between the board and the executive management. The chief executive is responsible for operational management of the company and reports regularly to the board.

The administration is responsible for preparing matters for board meetings. Ensuring that the work of the board is conducted in an efficient and correct manner in accordance with relevant legislation is the responsibility of the chair. The board ensures that the auditor fulfils a satisfactory and independent control function. It presents the auditor's report to the general meeting, which also approves the remuneration of the auditor. It was resolved in 2010 that the audit committee's duties would be discharged directly by the board.

The board conducts an annual evaluation of its work, competence and performance.

Thirteen board meetings were held in 2013, including one without physical attendance, and average attendance by directors was 82 per cent.

10. Risk management and internal control
High standards are set for internal control and management systems in the oil and gas industry. Further development and improvement of North Energy's management system is a continuous process, which was pursued at all levels in the company during 2013. Enhancing processes and associated documentation is a priority job in the company's corporate governance and risk management. North Energy worked systematically during the year on implementing the management system in the organisation in order to secure increased awareness of roles and responsibilities among its employees. The company's management system now provides a good tool for the executive management and the workforce, and reduces the risk of errors in its processes. While facilitating learning, the system simultaneously provides a sense of security and ensures continuity in the exercise of the company's most important processes.

The executive management follows up conditions which present the company with a financial risk on a daily basis, and reports these to the board. Non-conformities are followed up systematically and corrective measures adopted. The company has implemented a system for registration and follow-up of such measures.

Reporting to the board gives emphasis both to the on-going risk in daily operations and to risk associated with the investment opportunities presented. In addition, the board considers an overall risk assessment at least twice a year which takes account of all the company's activities and the exposure these involve. The board is also presented at regular intervals with the auditor's assessments of financial risk.

11. Remuneration of the board of directors
The nomination committee recommends the directors' fees to the general meeting, and takes account of their responsibility, qualifications, time taken and the complexity of the business.

Directors' fees are not profit-related. North Energy has not issued any options to its shareholder-elected directors.

None of the shareholder-elected directors have undertaken special assignments for North Energy other than those presented in this report, and none have received compensation from the company other than normal directors' fees.

12. Remuneration of executive personnel
The board determines the remuneration of the chief executive and takes account of the responsibility involved, qualifications, the complexity of the work and the results achieved. Furthermore, the board determines the principles for remunerating other senior executives in the company, and these are explained in this annual report. All employees have the same performance-based pension plan. Further information is provided in the notes to the annual financial statements.

13. Information and communications
North Energy keeps shareholders and investors regularly informed about its

commercial and financial status. The requirements for such information have been increased by the company's stock exchange listing and the expansion in the number of its shareholders. The board is concerned to ensure than players in the stock market receive the same information at the same time, and all financial and commercial information is accordingly made available on the company's website. Stock exchange announcements are distributed through Thompson Reuters at www.newsweb.no.

The annual financial statements for North Energy are made available on its website at least three weeks before the general meeting. Interim reports are published within two months of the end of each quarter. Quarterly presentations are transmitted directly over the internet. North Energy publishes an annual financial calendar which is available on the Oslo Stock Exchange website.

The board gives emphasis to openness and equal treatment in relation to all players in the market, and strives at all times to give as correct a picture as possible of the company's financial position.

14. Takeovers

North Energy's articles of association contain no restrictions on or defence mechanisms against the acquisition of the company's shares. In accordance with its general responsibility for the management of North Energy, the board will act in the best interests of all the company's shareholders in such an event. Unless special grounds exist, the board will not seek to prevent takeover offers for the company's business or shares. Should an offer be made for the shares of North Energy, the board will issue a statement which recommends whether shareholders should accept it.

15. Auditor

The annual financial statements are audited. The board receives and considers the auditor's report after the financial statements for the relevant year have been audited. The auditor submits an annual plan for the conduct of audit work, and attends board meetings when the consideration of accounting matters requires their presence. In at least one of these meetings, the auditor makes a presentation to the board without the executive management being present. The auditor presents a declaration of independence and objectivity. Relations with the auditor are regularly reviewed by the board to ensure that the auditor exercises an independent and satisfactory control function. The board presents the auditor's fee to the general meeting for approval by the shareholders.

Alta, 19 March 2014

Johan Petter Barlindhaug
Chair

Harriet Hagan
Director

Heidi M Petersen
Director

Anders Onarheim
Director

Jogeir Romestrand
Director

Alexander Krogh
Director

Erik Karlstrøm
CEO

Financial statements

North Energy group

Consolidated income statement

(NOK 1 000)	Note	2013	2012
Gain from sales of licences	22	98 576	46 931
Payroll and related expenses	5	(51 029)	(56 774)
Depreciation and amortisation	16	(8 880)	(10 183)
Exploration expenses	17	(696 551)	(540 143)
Other operating expenses	6	(33 419)	(41 074)
Operating loss		**(691 302)**	**(601 243)**
Financial income	18	14 011	18 735
Financial expenses	18	(39 055)	(40 674)
Net financial items		**(25 044)**	**(21 940)**
Loss before income tax		**(716 346)**	**(623 183)**
Income tax credit	15	566 682	511 664
Loss for the year		**(149 664)**	**(111 519)**
Earnings per share (NOK per share)			
- Basic	13	(3.67)	(2.94)
- Diluted	13	(3.67)	(2.94)

Consolidated statement of comprehensive loss

(NOK 1 000)	Note	2013	2012
Loss for the year		**(149 664)**	**(111 519)**
Other comprehensive income, net of tax:			
Items that will not be reclassified to profit or loss in subsequent periods:			
Remeasurements pension, actuarial gain/(loss)	21	306	1 836
Total other comprehensive income, net of tax		**306**	**1 836**
Total comprehensive loss for the year		**(149 358)**	**(109 684)**

Consolidated balance sheet

(NOK 1 000)	Note	31.12.13	31.12.12
ASSETS			
Non-current assets			
Property, plant and equipment	16	9 165	15 754
Capitalised exploration and licence costs	17	17 496	268 839
Deferred tax asset	15	101 568	0
Other receivables	7	17 503	19 599
Total non-current assets		**145 732**	**304 192**
Current assets			
Prepayments and other receivables	8	16 312	35 637
Tax receivable, refund tax value exploration expenses	15	352 220	489 881
Tax receivable, tax value offshore losses	15	0	15 130
Cash and cash equivalents	9	15 024	28 496
Total current assets		**383 556**	**569 144**
Total assets		**529 289**	**873 336**

(NOK 1 000)	Note	31.12.13	31.12.12
EQUITY AND LIABILITIES			
Equity			
Share capital	10	40 813	40 813
Share premium		740 387	740 387
Other paid-in capital		29 570	29 570
Retained earnings		(550 201)	(400 843)
Total equity		**260 570**	**409 928**
Liabilities			
Non-current liabilities			
Pension liabilities	21	14 012	13 254
Convertible loans	23	40 697	0
Deferred tax	15	0	111 829
Total non-current liabilities		**54 708**	**125 083**
Current liabilities			
Current borrowings	11	164 989	215 552
Trade creditors		8 101	44 070
Other current liabilities	12	40 920	78 703
Total current liabilities		**214 011**	**338 325**
Total liabilities		**268 719**	**463 408**
Total equity and liabilities		**529 289**	**873 336**

Alta, 19 March 2014

Johan Petter Barlindhaug
Chair

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Director

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Director

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Director

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Director

Erik Karlstrøm
CEO

Consolidated statement of changes in equity

(NOK 1 000)	Note	Share capital	Share premium	Other paid-in capital	Retained earnings	Total equity
Equity at 1 January 2012		25 224	606 141	29 570	(291 159)	369 776
Transactions with owners:						
Share issues		15 589	140 301	0	0	155 891
Share issue expenses (net after tax)		0	(6 056)	0	0	(6 056)
Comprehensive income:						
Total compehensive income for 2012		0	0	0	(109 684)	(109 684)
Equity at 31 December 2012		**40 813**	**740 387**	**29 570**	**(400 843)**	**409 928**
Equity at 1 January 2013		40 813	740 387	29 570	(400 843)	409 928
Comprehensive income:						
Total compehensive income for 2013		0	0	0	(149 358)	(149 358)
Equity at 31 December 2013		**40 813**	**740 387**	**29 570**	**(550 201)**	**260 570**

Consolidated cash flow statement

(NOK 1 000)	Note	2013	2012
Cash flow from operating activities			
Loss before income tax		(716 346)	(623 183)
Adjustments:			
Tax refunded	15	505 192	553 523
Deprecitiation	16	8 880	10 183
Gain from sales of licences	22	(98 576)	(46 931)
Impairment of capitalised exploration expenses	17	502 665	332 394
Pensions		(845)	(706)
Transaction costs and interest on borrowings recognised in P&L	18	30 831	33 383
Changes in fair value of conversion rights recognised in P&L	18	(433)	0
Changes in trade creditors		(35 969)	(22 038)
Changes in other accruals		(8 720)	41 296
Net cash flow from operating activities		**186 678**	**277 921**
Cash flow from investing activities			
Purchase of property, plant and equipment	16	(2 292)	(3 865)
Proceeds from sales of licences	22	86 770	73 237
Capitalised exploration and licence costs	15, 17	(251 547)	(337 758)
Proceeds from payments of other non-current receivables	7	5 091	3 703
Net cash flow from investing activities		**(161 978)**	**(264 684)**
Cash flow from financing activities			
Funds drawn current borrowings	11	485 000	572 500
Repayments of current borrowings	11	(539 582)	(700 091)
Funds drawn convertible loans	23	42 028	0
Transaction costs and interest on borrowings paid	11, 18	(25 618)	(38 837)
Proceeds from share issues		0	147 480
Net cash flow from financing activities		**(38 172)**	**(18 948)**
Net change in cash and cash equivalents		**(13 472)**	**(5 710)**
Cash and cash equivalents at 1 January	9	28 496	34 206
Cash and cash equivalents at 31 December	**9**	**15 024**	**28 496**

Notes

North Energy group

Note 1

General information

The consolidated financial statements of North Energy were approved by the board of directors and CEO at 19 March 2014.

North Energy ASA is a public limited company incorporated and domiciled in Norway, with its main office in Alta. The company's shares were listed on Oslo Axess on 5 February 2010.

The group's only business segment is exploration for oil and gas on the Norwegian continental shelf.

Note 2

Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.1 Basis for preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and in accordance with the additional requirements pursuant to the Norwegian Accounting Act.

The financial statements have been prepared on a historical cost basis.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of North Energy ASA and its subsidiary 4Sea Energy AS. Subsidiaries are all entities over which the group has the power to govern the financial and operating policies (control), generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group, and they are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains and losses on transactions between the group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

Acquisitions of subsidiaries are accounted for using the acquisition method of accounting. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition costs are expensed as incurred. The excess of the consideration transferred over the fair value of the identifiable net assets of the subsidiary acquired is recorded as goodwill. Each acquisition is considered individually to determine whether the acquisition should be deemed to be a business combination or an asset acquisition. When acquisitions are deemed to be asset acquisitions, no deferred tax on initial differences between carrying values and tax bases are recorded, nor is any goodwill recorded at the date of acquisition.

2.3 Foreign currency

Functional currency and presentation currency

The group's presentation currency is Norwegian kroner (NOK). This is also the parent company's and the subsidiary's functional currency.

Transactions in foreign currency

Foreign currency transactions are translated into NOK using the exchange rates at the transaction date. Monetary balances in foreign currencies are translated into NOK at the exchange rates on the date of the balance sheet. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

2.4 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any impairment charges. Depreciation is calculated on a straight line basis over the asset's expected useful life and adjusted for any impairment charges. Expected useful lives of long-lived assets are reviewed annually, and where they differ from previous estimates, depreciation periods are changed accordingly. Ordinary repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred. The costs of major renovations are included in the asset's carrying amount when it is probable that the company will derive future economic benefits. Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount and are included in operating profit. Major assets with different expected useful lives are reported as separate components. Each component is depreciated on a straight line basis over its expected useful life.

Property, plant and equipment are reviewed for potential impairment whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs required to sell the asset and its value in use. The value in use is determined by reference to discounted future net cash flows expected to be generated by the asset. The difference between the asset's carrying amount and its recoverable amount is recognised in the income statement as impairment. Property, plant and equipment that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.5 Capitalised exploration and licence costs

Exploration costs for oil and gas properties

The group uses the successful efforts method to account for exploration costs. All exploration costs, with the exception of acquisition costs of licences and drilling costs of exploration wells are expensed as incurred. Costs related to drilling of exploration wells are temporarily capitalised pending the evaluation of the potential existence of oil and gas reserves. If reserves are not found, or if discoveries are assessed not to be commercially recoverable, the drilling costs of exploration wells are expensed. Costs of acquiring licences are capitalised as intangible assets.

Capitalised costs of acquiring licences and drilling exploration wells are assessed for impairment when facts and circumstances suggest that the carrying amount may exceed the recoverable amount. The recoverable amount is the higher of the asset's fair value less costs required to sell the asset and its value in use. The value in use is determined by reference to discounted future net cash flows expected to be generated by the asset. The difference between the asset's carrying amount and its recoverable amount is recognised in the income statement as impairment.

Capitalised exploration and licence costs will be depreciated using the unit-of-production method as reserves are produced.

2.6 Farm in and farm out in the exploration phase

Agreements in connection with acquisition/sale of interests in licences in the exploration phase (farm in/farm out agreements), often involve a situation where the owner of a working interest (the farmor) transfers a portion of its working interest to another party (the farmee) in return for the farmee's performance of some agreed action. The farmee may, for example, agree to cover/carry drilling expenses for the farmor limited to a fixed amount. In return, the farmor agrees to transfer a portion of the working interest in the property to the farmee. This well carry/carried interest is accounted for by the farmee as the costs occur and is classified in accordance with the policy for treatment of the exploration expenses (for North Energy, the successful efforts method). The farmor does not record any profit or loss but accounts for the well carry as an expense reduction when it occurs.

A farm in/farm out agreement is recognised when risks and rewards of ownership are transferred, which usually takes place when necessary public approvals are given.

2.7 Interests in oil and gas licences

The group's interests in oil and gas licences are accounted for by recognising the group's share of the licences' individual expenses, assets, liabilities and cash flows. Each item is classified and presented in its respective line-items in the financial statements.

2.8 Leases (as lessee)

Leases in which most of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

2.9 Receivables

Receivables are initially recognised at fair value. The receivables are subsequently carried at amortised cost using the effective interest method. Impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition and this loss event (or events) has an impact on the estimated future cash flows that can be reliably estimated. The amount of the loss is measured as the difference between the carrying amount and the present value of estimated future cash. The asset's carrying amount is reduced and the amount of the loss is recognised in the income statement. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in the income statement.

2.10 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits with banks and other short-term highly liquid investments with original maturities of three months or less.

2.11 Borrowings and convertible loans

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of transaction/issue costs associated with the borrowing. After initial recognition, interests-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Any difference between the consideration received net of transaction/issue costs associated with the borrowing and the redemption value, is recognised in the income statement over the term of the loan.

The conversion rights related to the convertible loans are classified as an financial obligation (derivative), and are measured at fair value with changes in fair value recognised in the income statement as financial items.

2.12 Taxes

Income taxes for the period comprises tax payable, refundable tax from the refund tax value of exploration expenses and changes in deferred tax.

Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are calculated on the basis of existing temporary differences between the carrying amounts of assets and liabilities in the financial statements and their tax bases, together with tax losses carried forward at the balance sheet date. Deferred tax assets and liabilities are calculated on the basis of the tax rates and tax legislation that are expected to exist when the assets are realised or the liabilities are settled, based on the tax rates and tax legislation that have been enacted or substantially enacted on the balance sheet date. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that is no longer probable that the deferred tax asset can be utilised. Deferred tax assets and liabilities are not discounted. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

2.13 Pension plans

Pension plans are financed through payments to insurance companies, and are determined on the basis of periodic actuarial estimates. The group has a defined benefit plan. This is a pension plan which defines the pension payment that the employee will receive when retiring. The pension payment is generally influenced by one or several factors, such as age, years of service and salary.

The recognised liability is the present value of the defined benefits on the balance sheet date less the fair value of the plan assets. The pension liability is estimated yearly by an independent actuary, based on a linear method. The present value of the defined benefits is determined by discounting the estimated future payments by the interest on a bond issued by a company with high credit rating in the same currency as the benefit will be paid in, and with terms approximately equal to the terms of the related pension liability.

Variances in estimates owing to new information or changes in actuarial assumptions are recognised directly in equity through the statement of comprehensive income in the period in which they arise.

Changes in pension plan benefits are recognised immediately in the income statement.

2.14 Bonus programme

The group has a bonus programme for employees. The bonus is limited to 1/3 of fixed salary, with distribution 50/50 in cash and bonus shares, where the cash bonus is earned first. Fair value of the bonus shares is charged to expenses. The group recognises a corresponding increase in equity, classified as other paid-in capital.

2.15 Provisions

A provision is recognised when the company has a present legal or constructive obligation as a result of past events, it is probable (i.e. more likely than not) that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation. The increase in the provision owing to passage of time is recognised as a financial cost.

The group recognises a provision and an expense for severance payments when there exists an legal obligation to make severance payments.

The group recognises a provision and an expense for bonuses to employees, when the company is contractually obliged or where there is a past practice that has created a constructive obligation. The part of the bonus which is equity-settled (the bonus shares) is charged to expenses with a corresponding increase in equity.

2.16 Trade creditors

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

2.17 Contingent liabilities

Contingent liabilities are not recognised in the financial statements. Significant contingent liabilities are disclosed, with the exception of contingent liabilities where the probability of the liability occurring is remote.

2.18 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary shares using the weighted average number of ordinary shares outstanding during the year after deduction of the average number of treasury shares held over the period.

The calculation of diluted earnings per share is consistent with the calculation of the basic earnings per share, but gives at the same time effect to all dilutive potential ordinary shares that were outstanding during the period, by adjusting the profit/loss and the weighted average number of shares outstanding for the effects of all dilutive potential shares, i.e.:

- the profit/loss for the period attributable to ordinary shares is adjusted for changes in profit/loss that would result from the conversion of the dilutive potential ordinary shares
- the weighted average number of ordinary shares is increased by the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2.19 Segment reporting

The group's only business segment is exploration for oil and gas on the Norwegian continental shelf. Based on this, no segment note is presented and this is in accordance with management's reporting.

2.20 Cost of equity transactions

Transaction costs directly linked to an equity transaction are recognised directly in equity, net after deducting tax.

2.21 Cash flow statement

The cash flow statement is prepared using the indirect method.

2.22 Events after the balance sheet date

The financial statements are adjusted to reflect events after the balance sheet date that provide evidence of conditions that existed at the balance sheet date (adjusting events). The financial statements are not adjusted to reflect events after the balance sheet date that are indicative of conditions that arose after the balance sheet date (non-adjusting events). Non-adjusting events are disclosed if significant.

2.23 Changes in accounting policies and disclosures

(a) New and amended standards and interpretations

Amendments to standards effective for the accounting periods starting 1 January 2013 did not have any material impact on the group's financial statements.

(b) IFRS and IFRIC issued but not adopted by the group

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the group are listed below.

None of the standards, amendments and interpretation to existing standards are assessed to have a material impact on the financial statements.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2014 (IASB effective date is 1 January 2013).

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2014 (IASB effective date is 1 January 2013).

IAS 32 - Amendment: Offsetting Financial Assets and Financial Liabilities.

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the IAS 32 offsetting criteria to settlement. The amendment becomes effective for annual periods beginning on or after 1 January 2014.

IFRS 9 Financial Instruments and subsequent amendments

IFRS 9 is a new standard for financial instruments that is ultimately intended to replace IAS 39 in its entirety. IFRS 9 will be issued in several phases, and currently the "classification and measurement" and "general hedge accounting" has been issued. According to IASB, the standard is effective for annual periods beginning on or after 1 January 2017. The EU has not yet decided on the effective date. The adoption of the first phase of IFRS 9 may have an effect on the classification and measurement of the group's financial assets and financial liabilities.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after 1 January 2014. (IASB effective date is 1 January 2013).

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard becomes effective for annual periods beginning on or after 1 January 2014 (IASB effective date is 1 January 2013).

IFRS 12 Disclosure of Involvement with Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2014. (IASB effective date is 1 January 2013).

Note 3

Financial risk management

3.1 Financial risks

Exploration for oil and gas involves a high degree of risk, and the group is subject to the general risk factors pertaining to this business, such as (i) volatility of oil and gas prices, (ii) uncertainty pertaining to estimated oil and gas reserves, (iii) operational risk related to oil and gas exploration and (iv) volatility in exchange rates. Furthermore, only a few prospects that are explored are ultimately developed into production.

Furthermore, the group is exposed to certain types of financial risks. Management involves receivables, loans, accounts payable and drawing rights to financial institutions. The business activities of the group involve exposure to credit, interest rate, liquidity and currency risk.

(a) Credit risk

The group is mainly exposed to credit risk related to bank deposits, receivables from joint ventures and loans to employees. The exposure to credit risk is monitored on an ongoing basis. As all counterparties have a high credit rating, there are no expectations that any of the counterparties will not be able to fulfil their liabilities. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

(b) Interest rate risk

The group's exposure to interest rate risk is related to usage of the credit facility, with floating interest rate conditions. The group is therefore exposed to interest rate risk as part of its normal business activities and the aim is to keep this risk at an acceptable level.

The group has a revolving credit facility which entitles the group to borrow up to NOK 950 million. The interest rate is NIBOR + 2.25%. See note 11 for further information. The loan is secured by a pledge in tax receivables from refund pursuant to the Norwegian Petroleum Tax Act and the interests in production licences which the company at any time has. The group has no other interest-bearing borrowings with floating interest rate conditions. The convertible loans have fixed interest rate conditions.

Sensitivity analysis:
interest rate sensitivity is calculated on the basis of exposure to interest-bearing debt with floating interest rate conditions on the balance sheet date.
2013: If NIBOR had been 50 basis points higher/lower, the group's profit after tax would have been NOK 612 000 lower/higher.
2012: If NIBOR had been 50 basis points higher/lower, the group's profit after tax would have been NOK 709 000 lower/higher.

(c) Liquidity risk

The company's liquidity risk is the risk that it will not be able to meet its financial obligations as they fall due. Sufficient liquidity will be held in regular bank accounts at all times to cover expected payments relating to operational activities and investment activities for two weeks ahead. The exploration drawing facility is used when cash liquidity is needed. In addition, short-term (12 months) and long-term (five-year) forecasts are prepared on a regular basis to plan the group's liquidity requirements. These plans are updated regularly for various scenarios and form part of the day-today decision basis for the group's board of directors. Some reporting requirements are associated with the agreement with the bank syndicate that furnished the credit facility, including quarterly updates of a revolving liquidity budget for the next 12 months. The company's objective for the placement and management of excess capital is to maintain a very low risk profile and very good liquidity.

The conditions of the group's convertible loans are maturity in March 2017, during which repayments may be made but are not mandatory. The group's other financial liabilities, both for 2012 and 2013, are short term. Funds drawn (credit facility), both for 2012 and 2013, fall due within 12 months (in December the following year), while other financial liabilities, both for 2012 and 2013, fall due within 0 - 6 months.

(d) Currency risk
The parent company's and the subsidiary's functional currency is the NOK. The group is exposed to currency risk related to its activities because the value of potential discoveries is correlated with the USD and parts of the group's expenses are USD-based. The group has not entered into any agreements to reduce its exposure to foreign currencies. A weak Norwegian krone will increase expenses, and vice versa with a strong Norwegian krone.

3.2 Capital management
The group's aim for management of capital structure is to secure the business in order to yield profit to shareholders and contributions to other stakeholders. In addition, a capital structure at its optimum will reduce the costs of capital. To maintain or change the capital structure in the future, the group can pay dividends to its shareholders, issue new shares or sell assets/licences to reduce debt. The group may buy its own shares. The point of time for this is dependent on changes in market prices.

The group monitors its capital structure using a equity ratio, which is total equity divided by total assets. As at 31 December 2013, the equity ratio was 49.2% (46.9% as at 31 December 2012).

The company will handle any increased future capital requirements through selling assets, raising new capital, taking up loans, entering into carry agreements, strategic alliances and any combination of these, and by adjusting the company's level of activity if required.

Note 4

Critical accounting estimates and judgements

4.1 Critical accounting estimates and assumptions
The preparation of the financial statements in accordance with IFRS requires management to make judgements and use estimates and assumptions that affect the reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are considered to be reasonable under the circumstances. The estimates and underlying assumptions are reviewed on an ongoing basis.

Estimates and assumptions which represent a considerable risk for material changes in carrying amounts of assets and liabilities during the next fiscal year are presented below.

a) Tax receivable from refund tax value exploration expenses
The Norwegian taxation authorities may have a different understanding than the company regarding the definition of indirect exploration expenses pursuant to the Norwegian Petroleum Tax Act. See note 15.

b) Deferred tax/tax assets
Most critical estimates influencing the carrying amount are related to valuations/judgement of utilisation of deferred tax assets. See note 15.

c) Capitalised exploration and licence costs
Capitalised exploration and licence costs are assessed for impairment when facts and circumstances suggest that the carrying amount may exceed the recoverable amount. The recoverable amount is the higher of the asset's fair value less costs required to sell the asset and its value in use. The value in use is determined by reference to discounted future net cash flows expected to be generated by the asset.

d) Pensions
The present value of pension liabilities depends on several different factors determined by different actuarial assumptions. The assumptions used to estimate net pension costs/revenue include the discount rate. Changes in this assumption will influence the carrying amount of the pension liabilities.

The group determines a suitable discount rate by the year end. This is the rate to be used when calculating the present value of future estimated outgoing cash flows needed to settle the pension liabilities. When determining a suitable discount rate, the group considers the interest rate of registered bonds of high quality issued in the same currency as the pension payment, and with approximately the same due date as the related pension liability.

Other pension assumptions are partly based on market terms. Additional information is presented in note 21.

4.2 Critical judgements in applying the company's accounting policies
Management has also made judgements in the process of applying the group's accounting policies. Such judgements with the most significant effect on the amounts recognised in the financial statements are presented in the following:

a) Accounting policy for exploration expenses
The group uses the successful efforts method to account for exploration costs. All exploration costs, with the exception of acquisition costs of licences and drilling costs of exploration wells, are expensed as incurred.

Note 5

Payroll costs, remuneration of directors and management

Amounts in NOK 1 000	2013	2012
Salaries	34 866	40 738
Payroll tax	3 149	2 978
Pension costs (see note 21)	9 760	8 862
Other benefits	3 253	4 197
Total	51 029	56 774
Average number of employees	35.1	41.1

Remuneration to directors and management in 2013:

Amounts in NOK 1 000	Directors' fees	Salaries	Bonus	Pension	Other*
Management ****					
Erik Karlstrøm (CEO)		2 893	1 033	4 096	79
Knut Sæberg (CFO)		2 446	816	645	24
Erik Henriksen (vice president exploration)		2 004	622	341	26
Astrid M Tugwell (vice president development and HSEQ)		1 478	480	283	24
Vigdis Wiik Jakobsen (vice president portfolio) **		1 238	401	196	17
Marion Høgmo (vice president administration and HR)		1 073	325	173	27
Kristin Ingebrigtsen (vice president strategy and PA/PR)		1 315	443	215	27
Kristen Berli (vice president exploration and business development) ***		1 326	0	321	20
Board of directors					
Johan P Barlindhaug (chair)	572				
Anders Onarheim (director)	0				
Harriet Hagan (director)	180				
Alexander Krogh (director)	10				
Jogeir Romestrand (director)	0				
Heidi Marie Petersen (director)	165				
Jørn Olsen (former director)	63				
Ane Marta S Rasmussen (former director)	50				
Leif W Finsveen (former director)	180				
Ola Krohn-Fagervoll (former director)	180				
Total	1 400	13 774	4 121	6 271	244

* Other includes benefits from free car, loan interest rate benefit, allowances to cover telephone and internet, training fee, group life insurance and travel insurance.
** Vigdis Wiik Jakobsen left the company on 1 September 2013. *** Kristen Berli joined the company on 1 June 2013.
**** Figures for remuneration to management are exclusive of payroll tax.

Remuneration to the CEO:
The company's CEO has an agreement with an annual salary of NOK 2.76 million. Other benefits include free car, loan interest rate benefit, and regular allowances to cover telephone, internet, training fee, pension, group life insurance and travel insurance. In addition, he is included in the company's general employee bonus programme as determined by the board of directors. The bonus is limited to 1/3 of fixed salary, with distribution 50/50 in cash and bonus shares, where the cash bonus is earned first. In the event of resignation at the request of the board of directors, the CEO has a right to a severance payment equivalent to two years of gross fixed salary. If the CEO resigns, there is no severance payment. The CEO also has an early retirement pension scheme from the age of 62 until the ordinary retirement age (67 years), where the pension is 67% of final salary.

Bonus programme:
The management is included in the company's general employee bonus programme as determined by the board of directors. The bonus is limited to 1/3 of fixed salary, with distribution 50/50 in cash and bonus shares, where the cash bonus is earned first. The bonus is linked to the achievement of specified parameters for each member of the executive management's area of responsibility. Both financial and non-financial parameters are used.

Severance payment:
The CEO and CFO have 24-month severance payment agreements. In the event of resignation at the request of the board of directors, they have the right to a severance payment equivalent to two years of gross fixed salary. The vice president for exploration and business development has an 18-month severance payment agreement, in which 6 months are fixed and remaining 12 months are less salary earned in any new employment.

Information about loans to employees 2013:

Amounts in NOK 1 000	Loan at 31.12	Maturity	Interest rate
Loan to Erik Karlstrøm	955	10 years	2%
Loans to other employees	1 096	20 years	2%
Total	2 051		

The loans are provided for the purpose of house purchase, and private estates are pledged as security. If employment is terminated, employees must settle the remaining outstanding loan amount.

Remuneration to directors and management in 2012:

Amounts in NOK 1 000	Directors' fees	Salaries	Bonus	Pension	Other*
Management					
Erik Karlstrøm (CEO)		2 780	459	4 552	96
Knut Sæberg (CFO)		2 166	330	390	36
Erik Henriksen (vice president exploration)		1 910	136	350	30
Astrid M Tugwell (vice president development)		1 411	163	308	21
Vigdis Wiik Jakobsen (vice president portfolio)		1 598	203	382	24
Marion Høgmo (vice president administration and HR)		1 017	115	152	24
Kristin Ingebrigtsen (vice president strategy and PA/PR)		1 208	124	184	21
Board of directors					
Johan P Barlindhaug (chair)	400				
Leif W Finsveen (director)	135				
Harriet Hagan (director)	135				
Ola Krohn-Fagervoll (director)	0				
Ane Marta S Rasmussen (director)	0				
Heidi Marie Petersen (director)	135				
Brynjar K Forbergskog (former director)	135				
Ole Njærheim (former director)	135				
Guri Helene Ingebrigtsen (former director)	135				
Hans Kristian Rød (former director)	135				
Jørn Olsen (former director)	90				
Total	1 435	12 090	1 530	6 319	254

** Other includes benefits from free car, loan interest rate benefit, allowances to cover telephone and internet, training fee, group life insurance and travel insurance.*

Information about loans to employees 2012:

Amounts in NOK 1 000	Loan at 31.12	Maturity	Interest rate
Loan to Erik Karlstrøm	1 156	10 years	2%
Loans to other employees	5 999	20 years	2% *
Total	7 154		

** NOK 0.45 million of the loans to other employees have an interest rate of 6%, while remaining loans have an interest rate of 2%.*

The loans are provided for the purpose of house purchase, and private estates are pledged as security.
If employment is terminated, employees must settle the remaining outstanding loan amount.

The board of directors' declaration regarding determination of salary and other remuneration to management employees

The board of directors will prepare a declaration in accordance with section 6-16a of the Norwegian Public Limited Liability Companies Act (Allmennaksjeloven). In accordance with section 7-31b of the Norwegian Accounting Act, the content of this declaration is presented.

The main principle for the company is that remuneration to management is competitive in such a way that the company is able to attract and retain competent management employees. The remuneration will be competitive and based on individual criteria such as experience, area of responsibility and achievement of results. The remuneration system for management employees will furthermore encourage a strong and lasting profit-oriented organisation which contributes to increasing shareholder value.

Total remuneration to management employees includes:
(1) Market-based fixed salary.
(2) Bonus. The management is included in the company's general employee bonus programme. The bonus is limited to 1/3 of fixed salary, with distribution 50/50 in cash and bonus shares, where the cash bonus is earned first. The bonus is linked to the achievement of specified parameters for each member of the executive management's area of responsibility. Both financial and non-financial parameters are used.
(3) Pension and insurance. The management is included in the company's general pension and insurance scheme. The CEO has in addition an early retirement pension scheme from the age of 62 until the ordinary retirement age (67 years), where the pension is 67% of final annual salary.
(4) Severance payment. The CEO and CFO have agreements covering severance payments. In the event of resignation at the request of the board of directors, they have the right to a severance payment equivalent to two years of gross fixed salary.
(5) Other benefits such as free car, loan interest rate benefit, and regular allowances to cover telephone, internet, training fee and travel insurance.

Note 6

Other operating expenses and remuneration to auditor

Other operating expenses include:

Amounts in NOK 1 000	2013	2012
Travelling expenses	4 310	4 739
Lease expenses (see note 20)	6 397	4 507
Consultant and other fees	7 190	10 161
Advertising costs	1 904	3 182
Other administrative expenses	13 619	18 486
Total	33 419	41 074

Remuneration to auditor is allocated as specified below:

Amounts in NOK 1 000	2013	2012
Audit	438	461
Attestations	28	34
Accounting assistance	11	5
Due diligence, share issues and prospectus	0	67
Other assistance	34	33
Total, excl VAT	510	600

Note 7

Other non-current receivables

Other non-current receivables include:

Amounts in NOK 1 000	2013	2012
Loans to employees (note 5)	2 051	7 154
Deposit	458	446
Pension assets (note 21)	14 993	11 999
Total	17 503	19 599

Note 8

Prepayments and other receivables

Prepayments and other receivables include:

Amounts in NOK 1 000	2013	2012
Prepaid expenses	3 449	1 539
VAT receivable	1 862	3 327
Receivables, from interests in licences	9 781	30 703
Other items	1 220	69
Total	16 312	35 637

Note 9

Cash and cash equivalents

Cash and cash equivalents:

Amounts in NOK 1 000	2013	2012
Bank deposits	15 024	28 496
Total cash and cash equivalents	15 024	28 496
Of this:		
Restricted cash for witheld taxes from employee salaries	2 581	2 845

Note 10

Share capital and shareholder information

	2013	2012
Number of outstanding shares at 1 January	40 813 448	25 224 393
New shares issued during the year:		
issued in exchange for cash	0	15 589 055
Number of outstanding shares at 31 December	40 813 448	40 813 448
Nominal value NOK per share at 31 December	1.00	1.00
Share capital NOK at 31 December	40 813 448	40 813 448

North Energy has one share class with equal rights for all shares. No dividends have been proposed or paid in 2012 or 2013.

Number of shares owned by management and directors at 31 December 2013:

Management		
Erik Karlstrøm (CEO), directly and through Ninerik AS	642 980	1.58%
Knut Sæberg (CFO)	32 073	0.08%
Astrid M Tugwell (vice president development and HSEQ)	49 427	0.12%
Kristen Berli (vice president exploration and business development)	48 027	0.12%
Marion Høgmo (vice president administration and HR)	8 056	0.02%
Board of directors		
Johan P Barlindhaug (chair), through JPB AS	2 783 423	6.82%
Gunnar Hvammen (director), through Solan Capital AS	1 410 073	3.45%
Heidi M Petersen (director), through Luuna AS	45 000	0.11%
Harriet Hagan (director)	25 000	0.06%
Alexander Krogh (director)	8 500	0.02%
Total	5 052 559	12.38%

Number of shares owned by management and directors at 31 December 2012:

Management		
Erik Karlstrøm (CEO), directly and through Ninerik AS	642 980	1.58%
Knut Sæberg (CFO)	32 073	0.08%
Astrid M Tugwell (vice president development and HSEQ)	49 427	0.12%
Vigdis Wiik Jakobsen (vice president portfolio)	41 000	0.10%
Marion Høgmo (vice president administration and HR)	8 056	0.02%
Board of directors		
Johan P Barlindhaug (chair), through JPB AS	2 783 423	6.82%
Harriet Hagan (director)	25 000	0.06%
Jørn Olsen (director)	4 497	0.01%
Total	3 586 456	8.79%

Note 10

Share capital and shareholder information (continued)

Main shareholders as of 31 December 2013:

Shareholder	Number of shares	% share
JPB AS	2 783 423	6.82%
SKS EIENDOM AS	2 374 920	5.82%
EUROCLEAR BANK S.A./N.V. ('BA')	2 356 500	5.77%
SOLAN CAPITAL AS	1 410 073	3.45%
ORIGO KAPITAL AS	1 343 569	3.29%
BNY MELLON SA/NV	1 255 000	3.07%
HSBC BANK PLC	1 100 000	2.70%
THE NORTHERN TRUST CO.	1 031 270	2.53%
IKM INDUSTRI-INVEST AS	1 008 648	2.47%
OM HOLDING AS	969 819	2.38%
VERDIPAPIRFONDET WARRENWICKLUND NO	954 670	2.34%
ONSHORE GROUP NORDLAND AS	933 340	2.29%
DELPHI NORGE	870 988	2.13%
HAMNINGBERG HOLDING AS	815 605	2.00%
CACEIS BANK FRANCE	796 571	1.95%
SPITSBERGEN AS	785 931	1.93%
THE LIVERPOOL LP	780 000	1.91%
KAPNORD FOND AS	727 895	1.78%
NINERIK AS	629 543	1.54%
STATE STREET BANK AND TRUST CO.	606 297	1.49%
Total 20 largest shareholders	23 534 062	57.66%
Other shareholders	17 279 386	42.34%
Total	40 813 448	100.00%

Note 11

Current borrowings

Current borrowings include

Amounts in NOK 1 000	2013	2012
Revolving credit facility (exploration loan), funds drawn *	170 000	197 082
Revolving credit facility (exploration loan), transaction costs	(5 011)	(9 757)
Loan from Lime Petroleum Plc, incl accrued interest **	0	28 227
Balance 31 December	164 989	215 552

* In 2012, the group expanded its exploration loan facility from NOK 760 million to NOK 950 million, and the group also entered into an agreement to renew its exploration loan facility for the period 2013-2015. Interest rate is NIBOR + 2.25%.

The loan is secured by a pledge in tax receivables from refund pursuant to the Norwegian Petroleum Tax Act and the interests in production licences which the company at any time has.

** The loan from Lime Petroleum Plc. has been settled in connection with the completion of the sale of interests in licences to Lime Petroleum Norway AS in 2013. The loan was netted against the sale sum of NOK 28.2 million. The loan was NOK 27.5 million plus incurred interest and the interest rate was four per cent.

Note 12

Other current liabilities

Amounts in NOK 1 000	2013	2012
Public duties payable	3 208	3 421
Accruals, from interests in licences	13 717	39 472
Holiday pay and bonus payable	9 306	17 323
Fair value of conversion rights (see note 23)	899	0
Other accruals for incurred costs	13 791	18 487
Total	40 920	78 703

Note 13

Earnings per share

	2013	2012
Loss for the year (NOK 1 000)	(149 664)	(111 519)
Weighted average number of shares outstanding	40 813 448	37 935 572
Earnings per share (NOK per share)		
- Basic	(3.67)	(2.94)
- Diluted	(3.67)	(2.94)

The dilution effect in 2013 of potential shares from convertible loans is not presented in the income statement, since the potential shares would have reduced the loss per share.

Note 14

Related parties

The company's transactions with related parties:
Amounts in NOK 1 000

(a) Purchases of services

Purchase of services from	Description of services	2012	2011
Johan Petter Barlindhaug (chair)	Consultancy services	87	115
Origo Økonomipartner AS (100% owned by Origo Nord AS, the management company for shareholder Origo Kapital AS)	Accounting services	0	199

Services are purchased on market terms.

(b) Remuneration to management and directors

See note 5.

(c) Loans to related parties

See note 5 for information about loans to employees.

(d) Overview of subsidiaries

The following subsidiaries are included in the consolidated financial statements:

Company	Acquisition date	Location	Equity and voting share
4Sea Energy AS	11 Feb 2010	Norway	100%

Note 15
Tax

Specification of income tax

Amounts in NOK 1 000	2013	2012
Calculated refund tax value of exploration costs this year	352 453	490 114
Of this, refund not recognised in income statement (acquisition of licences recognised net of tax)	(120)	(62)
Correction refund previous years	(52)	(261)
Tax receivable, tax value offshore losses	(0)	15 130
Change deferred tax in balance	213 397	90 396
Of this, deferred tax asset not recognised in income statement (acquisition of licences recognised net of tax)	0	(1)
Of this, deferred tax not recognised in income statement (sale of licences recognised net of tax)	(82)	(87 806)
Of this, deferred tax asset related to items in comprehensive income recognised in comprehensive income	1 085	6 508
Of this, deferred tax asset related to equity transactions recognised directly in equity	0	(2 355)
Total income tax credit	566 682	511 664

Specification of tax receivable refund tax value exploration expenses

Amounts in NOK 1 000	31.12.13	31.12.12
Calculated refund tax value of exploration costs this year	352 453	490 114
Correction refund previous years, not yet assessed	(233)	(233)
Total tax receivable, refund tax value exploration expenses	352 220	489 881

Oil-exploration companies operating on the Norwegian continental shelf may claim a 78% refund of their exploration costs limited to taxable losses for the year. The refund is paid in December the following year.

Specification of temporary differences, tax losses carried forward and deferred tax

Amounts in NOK 1 000	31.12.13	31.12.12
Property, plant and equipment	(3 318)	452
Capitalised exploration and licence costs	17 444	268 820
Pensions	982	(1 255)
Current borrowings	5 011	9 757
Convertible loans and conversion rights	433	0
Tax losses carried forward, onshore	(34 597)	(34 991)
Tax losses carried forward, offshore only 27% basis (2012: 28%)	(105 652)	(84 136)
Tax losses carried forward, offshore only 51% basis (2012: 50%)	(918)	(904)
Tax losses carried forward, offshore both 27% and 51% basis (2012: 28% and 50%)	(110 144)	(97 511)
Total basis for deferred tax	(230 759)	60 233
Deferred tax liability (-) / tax asset (+)	110 939	(101 991)
Uncapitalised deferred tax asset (valuation allowance) *	(9 370)	(9 838)
Deferred tax liability (-) / tax asset (+) in balance	101 568	(111 829)

Note 15
Tax (continued)

Companies operating on the Norwegian continental shelf under the offshore tax regime can claim the tax value of any unused tax losses related to their offshore activities to be paid in cash from the tax authorities when offshore activities subject to additional tax cease. Deferred tax assets based on offshore tax losses carried forward are therefore recognised in full.

* Uncapitalised deferred tax asset relates mainly to onshore tax loss carried forward in subsidiary 4Sea Energy AS.

Specification of offshore tax losses at cessation of offshore activities subject to additional tax and tax receivable from tax value of the losses

Amounts in NOK 1 000	31.12.13	31.12.12
Tax losses carried forward, offshore only 28% basis	0	(3 664)
Tax losses carried forward, offshore only 50% basis	0	0
Tax losses carried forward, offshore both 28% and 50% basis	0	(18 082)
Total basis tax receivable	0	(21 746)
Tax receivable from tax value of offshore losses in the balance sheet	0	15 130

Owing to the transaction in which the subsidiary 4Sea Energy AS sold all its licences to parent company North Energy ASA, the subsidiary's offshore activities subject to additional tax ceased with effect from 31 December 2012, and the company claimed to be paid the tax value of the offshore tax losses carried forward at 31 December 2012. See section 3 c, sub-section 4 of the Petroleum Taxation Act. The amount was paid to the company in December 2013.

Reconciliation of effective tax rate

Amounts in NOK 1 000	2013	2012
Profit before tax	(716 346)	(623 183)
Expected income tax credit 78%	558 750	486 083
Adjusted for tax effects (28% - 78%) of the following items:		
Permanent differences	19 429	22 277
Correction previous years	(56)	(812)
Interest on tax losses carried forward offshore	1 501	1 684
Finance items	(12 069)	(10 130)
Changed tax rates from 1 January 2014	(1 340)	0
Change in valuation allowance for deferred tax assets and other items	467	12 562
Total income tax credit	566 682	511 664

Note 16

Property, plant and equipment

Amounts in NOK 1 000	Equipment, office machines, etc
2013	
Cost:	
At 1.1.2013	41 998
Additions	2 292
Disposals	0
At 31.12.2013	**44 289**
Depreciation and impairment:	
At 1.1.2013	(26 244)
Depreciation this year	(8 880)
Impairment this year	0
Disposals	0
At 31.12.2013	**(35 124)**
Carrying amount at 31.12.2013	**9 165**
2012	
Cost:	
At 1.1.2012	38 133
Additions	3 865
Disposals	0
At 31.12.2012	**41 998**
Depreciation and impairment:	
At 1.1.2012	(16 061)
Depreciation this year	(10 183)
Impairment this year	0
Disposals	0
At 31.12.2012	**(26 244)**
Carrying amount at 31.12.2012	**15 754**
Economic life	3-10 years
Depreciation method	linear

Note 17

Capitalised and expensed exploration and licence costs

(a) Capitalised exploration and licence costs

Amounts in NOK 1 000	Capitalised exploration and licence costs
2013	
Cost:	
At 1.1.2013	268 839
Additions, capitalised exploration and licence costs *	251 427
Disposals, impairment **	(502 665)
Disposals, sale	(105)
At 31.12.2013	**17 496**
Amortisation and impairment:	
At 1.1.2013	0
Amortisation this year	0
Impairment this year **	(502 665)
Disposals **	502 665
At 31.12.2013	**0**
Carrying amount at 31.12.2013	**17 496**

* Additions relate mainly to drilling of exploration wells in PL 535 (Norvarg) and PL 299 (Frode). The drilling in PL 535 is an appraisal well on the Norvarg discovery.

** Disposals relate to impairment of capitalised expenses in PL 535 (Norvarg) and PL 299 (Frode). The Norvarg discovery is assessed not to be commercially recoverable and the exploration well in PL 299 (Frode) was a dry well result.

Note 17

(continued)

(a) Capitalised exploration and licence costs

Amounts in NOK 1 000	Capitalised exploration and licence costs
2012	
Cost:	
At 1.1.2012	376 719
Additions, capitalised exploration and licence costs *	337 696
Disposals, impairment **	(332 394)
Disposals, sale **	(113 182)
At 31.12.2012	268 839
Amortisation and impairment:	
At 1.1.2012	0
Amortisation this year	0
Impairment this year **	(332 394)
Disposals **	332 394
At 31.12.2012	0
Carrying amount at 31.12.2012	268 839

* Additions relate mainly to drilling of exploration wells in PL 450 (Storebjørn), PL 385 (Jette) and PL498 (Skagen).

** Disposals relate mainly to impairment of capitalised expenses in PL 450 (Storebjørn), PL 385 (Jette) and PL 498 (Skagen) owing to dry well results, and the sale of PL 433 (Fogelberg).

Depreciation method: capitalised exploration and licence costs will be depreciated using the unit-of-production method, if and when reserves are produced.

(b) Expensed exploration and licence costs

Specification of expensed exploration and licence costs:

Amounts in NOK 1 000	2013	2012
Share of exploration expenses from participation in licences, incl seismic, G&G, dry wells, carry	84 336	93 906
Impairment of capitalised exploration expenses	502 665	332 394
Seismic and other exploration costs	109 550	113 843
Total exploration and licence costs	696 551	540 143

Note 18

Finance income and costs

Finance income

Amounts in NOK 1 000	2013	2012
Interest income bank deposits	118	1 309
Interest income on tax refund	7 329	9 396
Other interest income	186	241
Foreign exchange gain	5 772	7 389
Finance income, from interests in licences	172	400
Change in fair value of conversion rights	433	0
Other finance income	2	1
Total finance income	14 011	18 735

Finance costs:

Amounts in NOK 1 000	2013	2012
Interest expenses and transaction costs on current borrowings	29 582	33 383
Interest expenses convertible loans	1 249	0
Foreign exchange loss	7 123	6 655
Other finance costs	1 101	636
Total finance costs	39 055	40 674

Note 19

Financial instruments

(a) Categories of financial instruments

at 31 December 2013:

Amounts in NOK 1 000	Loans and receivables
Assets:	
Other non-current receivables (see note 7) [1]	2 051
Other current receivables (see note 8) [1]	11 001
Cash and cash equivalents	15 024
Total	28 076

Amounts in NOK 1 000	Financial liabilities measured at amortised cost	Financial liabilities at fair value through profit and loss
Liabilities:		
Convertible loans	40 697	
Trade creditors	8 101	
Fair value of conversion rights	0	899
Other current liabilities (see note 12) [2]	23 023	
Current borrowings	164 989	
Total	196 114	899

at 31 December 2012:

Amounts in NOK 1 000	Loans and receivables
Assets:	
Other non-current receivables (see note 7) [1]	7 154
Other current receivables (see note 8) [1]	30 771
Cash and cash equivalents	28 496
Total	66 421

Amounts in NOK 1 000	Financial liabilities measured at amortised cost
Liabilities:	
Trade creditors	44 070
Other current liabilities (see note 12) [2]	56 795
Current borrowings	215 552
Total	316 417

[1] Pension assets, deposit, prepaid expenses and VAT receivable are excluded since they are not defined as financial instruments.

[2] Public duties payable and accruals for incurred costs are excluded since they are not defined as financial instruments.

(b) Fair value of financial instruments

Fair value other non-current receivables:The fair value of other non-current receivables is calculated by discounting cash flows with a rate equal to an alternative rate of 5.0% (2012: 5.0%). The discount rate corresponds to 10-year fixed-rate loans with the addition of relevant credit rating.

Amounts in NOK 1 000	2013	2012
Other non-current receivables (see note 7)	2 037	5 955

The carrying amount of cash and cash equivalents and other current receivables is approximately equal to fair value, since these instruments have a short term to maturity. Similarly, the carrying amount of trade creditors, other current liabilities and current borrowings is approximately equal to fair value, since the effect of discounting is not significant.
The carrying amount of convertible loans is approximately equal to fair value, since there have been no material changes in market interest rate since the borrowings.
Fair value of conversion rights is calculated using a model based on observable data (level 2 in the fair value hierarchy).

(c) Creditworthiness of financial assets

The group does not have a system that separates receivables and loans by counterparty credit rating.
Non-current receivables are mainly loans to employees. Loans to employees are repaid as agreed and have not been impaired in 2012 or 2013. Cash and cash equivalents are receivables from banks, and Standard & Poor's credit rating of these banks is presented below:

	2013	2012
Bank deposits:	15 024	28 496

Amounts in NOK 1 000	2013	2012
No external credit rating	0	0
A	15 024	28 496
AA	0	0
Total	15 024	28 496

Note 19
(continued)

(d) Financial risk factors

See note 3 for financial risk factors and risk management, sensitivity analysis and capital management.

Note 20
Leases

North Energy has no finance leases.

North Energy has entered into operating leases for office premises, cars, machinery and office furniture.
The leases do not impose any restrictions on the company's dividend policy or financing opportunities.

Lease costs consist of the following:

Amounts in NOK 1 000	2013	2012
Lease office premises (inclusive joint costs)	7 134	5 141
Lease machinery and office furniture	45	443
Lease cars	137	356
Sublease office premises	(918)	(1 434)
Total lease costs	6 397	4 507

Future minimum rents related to non-cancellable leases and subleases fall due as follows:

Amounts in NOK 1 000	2013	2012
Within 1 year - leases	2 746	3 894
Within 1 year - subleases	0	(1 130)
1 to 5 years - leases	10 984	10 984
1 to 5 years - subleases	0	0
After 5 years	8 238	10 984
Total net lease	21 967	24 731

Note 21
Pension

Actuarial assumptions

	2013	2012
Discount rate	4.10%	3.90%
Expected annual salary increases	3.75%	3.50%
Expected annual adjustment of pension benefits	3.50%	3.25%
Expected rate of adjustment to NI base rate (G)	3.50%	3.25%
Mortality assumptions are based on mortality table	K2013 BE	K2005
Disability assumptions are based on disability table	IR02	IR02

Pension expense recognised in income statement

Amounts in NOK 1 000	2013	2012
Current service costs	8 807	11 534
Net interest expense	511	363
Social security costs	441	633
Gain from take out of members	0	(3 668)
Total pension expense included in payroll and related cost	**9 760**	**8 862**

Specification of net pension liability

Amounts in NOK 1 000	2013	2012
Present value of funded obligations at 31.12	33 745	31 510
Estimated fair value of plan assets at 31.12	34 727	30 255
Net pension liability / (assets)	**(982)**	**1 255**

Classification of net pension liability in the balance sheet

Amounts in NOK 1 000	2013	2012
Other non-current receivables (note 7)	14 993	11 999
Pension liabilities	14 012	13 254
Net pension liability / (assets)	**(982)**	**1 255**

One individual pension plan was over funded by NOK 14 993 000 at the end of 2013 (NOK 11 999 000 at the end of 2012). The over funding will be used to cover future liabilities, but not liabilities in other pension plans that the company has. The amount is therefore classified with other non-current receivables.

Movement in the liability for defined benefit obligations during the year

Amounts in NOK 1 000	2013	2012
Defined benefit obligations at 1 January	31 510	36 132
Current service costs	8 807	11 534
Interest expense	1 229	793
Take out of members	0	(7 689)
Remeasurements, actuarial loss/(gain)	(7 802)	(9 260)
Liability for defined benefit obligations at 31 December	**33 745**	**31 510**

Movement in fair value of plan assets for defined benefit obligations

Amounts in NOK 1 000	2013	2012
Fair value of plan assets at 1 January	30 255	25 829
Interest income	718	430
Remeasurements, actuarial gain/(loss)	(6 411)	(917)
Take out of members	0	(3 909)
Employer contributions	10 164	8 822
Fair value of plan assets at 31 December	**34 727**	**30 255**

Plan assets comprise the following	2013	2012
Shares	6.1%	9.2%
Short-term bonds	15.6%	15.2%
Money market	21.4%	22.3%
Long-term bonds	36.8%	35.0%
Property	18.3%	17.8%
Other	1.9%	0.4%
Total	**100.0%**	**100.0%**

	2013	2012
Expected contributions to funded plans next year	7 788	5 880

The pension arrangements fulfil the requirements of the Norwegian Act on Mandatory Occupational Pensions.

Note 22

Gain from sales of licences

Gain from sales of licences in 2013 relate to the sale of:

- 10 per cent interest in PL 299 to Spike Exploration Holding AS
- 10 per cent interest in PL 590 to Spike Exploration Holding AS
- 5 per cent interest in PL 498 to Lime Petroleum Norway AS
- 12.5 per cent interest in PL 503 and PL 503B to Lime Petroleum Norway AS
- 5 per cent interest in PL 616 to Lime Petroleum Norway AS
- 10 per cent interest in PL 707 to Lime Petroleum Norway AS
- 10 per cent interest in PL 708 to Lime Petroleum Norway AS

Gain from sales of licences in 2012 relate to the sale of a 12 per cent interest in PL 433 (Fogelberg) to Centrica Resources (Norge) AS.

Note 23

Convertible loans

Convertible loans include:

Amounts in NOK 1 000	2013	2012
Convertible loan from TGS Nopec	22 939	0
Convertible loan from Rex Technologies Management	19 089	0
Fair value of conversion rights at time of borrowing	(1 332)	0
Balance 31 December	40 697	0

Convertible loans from TGS Nopec with borrowing limit up to NOK 200 million and from Rex Technologies Management with borrowing limit up to NOK 100 million. The conditions of the loans are eight per cent annual interest and maturity in March 2017, during which time repayments may be made but are not mandatory. The lender has an annual conversion right on the loan which has accumulated over a 12-month period. The conversion price is NOK 8 per share. If the share price exceeds NOK 16 per share, however, the conversion price will be adjusted upwards equal to the share price minus NOK 8.

The conversion rights are classified as an financial obligation (derivative) and are measured at fair value with changes in fair value recognised in the income statement as financial items. At 31 December 2013 the fair value of the conversion rights is presented within other current liabilities.

Note 24

Contingent liabilities

North Energy has not been involved in any legal or financial disputes in 2013 or 2012 where an adverse outcome is considered more likely than remote.

Note 25

Shares in licences and obligations

Shares in licences at 31 December 2013:

Licence	Share
PL 299	10%
PL 450	20%
PL 498	20%
PL 503/503B	13%
PL 509S/509BS	40%
PL 510	20%
PL 535/535B	20%
PL 587	40%
PL 590	30%
PL 595	40%
PL 601	20%
PL 616	15%
PL 656	10%
PL 693	15%
PL 707	10%
PL 708	10%
PL 713	20%
PL 719	20%
PL 722	20%

Shares in licences at 31 December 2012:

Licence	Share
PL 299	20%
PL 370/370B	10%
PL 385	15%
PL 450	15%
PL 498	25%
PL 503/503B	25%
PL 510 *	100%
PL 518/518B	30%
PL 526	67%
PL 530	20%
PL 535	20%
PL 562	10%
PL 564	20%
PL 587	40%
PL 590	40%
PL 594	20%
PL 595	40%
PL 601	20%
PL 616	20%
PL 656	10%

* Share in licence PL 510 was reduced to 20% in January 2013

Obligations at 31 December 2013:

Licence	Share	Obligation	Expected date
PL 510	20%	One firm well	Well Q4-2014
PL 713	20%	One firm well	Well Q3-2014

Obligations at 31 December 2012:

Licence	Share	Obligation	Expected date
PL 299	20%	One firm well	Well Q2-2013
PL 535	20%	One firm well (appraisal)	Well Q2-2013

Note 26

Events after the balance sheet date

In January 2014, North Energy was awarded six new licences in the 2013 APA round, including two operatorship.

North Energy has raised NOK 285 million in cash through a private placement of 71.25 million shares at NOK 4.00 per share and NOK 75 million in a convertible loan.

North Energy has entered into an agreement with EMGS ASA (EMGS) to licence EMGS' EM data library for the Barents Sea for an amount equal to NOK 75 million. In addition, EMGS has committed to provide various services over the coming two years and North Energy has agreed to prefund certain surveys, all for a total amount of NOK 25 million.

The NOK 75 million convertible loan with EMGS is related to the licence of the EM data library. The loan has a term of six months and can be converted to shares after four-six months at a strike price of NOK 4.15 per share.

Financial statements

North Energy ASA

Income statement

(NOK 1 000)	Note	2013	2012
Gain from sales of licences	23	98 576	46 931
Payroll and related expenses	5	(50 933)	(56 310)
Depreciation and amortisation	16	(8 880)	(10 183)
Exploration expenses	17	(696 551)	(473 904)
Other operating expenses	6	(33 038)	(42 525)
Operating loss		**(690 825)**	**(535 991)**
Financial income	18	12 714	18 243
Financial expenses	18	(38 664)	(40 834)
Net financial items		**(25 950)**	**(22 591)**
Loss before income tax		**(716 776)**	**(558 582)**
Income tax credit	15	566 682	422 248
Loss for the year		**(150 094)**	**(136 334)**

Statement of comprehensive income

(NOK 1 000)	Note	2013	2012
Loss for the year		**(150 094)**	**(136 334)**
Other comprehensive income, net of tax:			
Items that will not be reclassified to profit or loss in subsequent periods:			
Actuarial gain/(loss) pension	21	306	1 836
Total other comprehensive income, net of tax		**306**	**1 836**
Total comprehensive loss for the year		**(149 787)**	**(134 498)**

Balance sheet

(NOK 1 000)	Note	31.12.13	31.12.12
ASSETS			
Non-current assets			
Property, plant and equipment	16	9 165	15 754
Capitalised exploration and licence costs	17	17 496	268 839
Investment in subsidiaries	13	50 000	50 000
Deferred tax asset	15	101 568	0
Other receivables	7	17 503	19 599
Total non-current assets		**195 732**	**354 192**
Current assets			
Prepayments and other receivables	8	16 421	34 898
Receivable from subsidiary		30	111
Tax receivable, refund tax value exploration expenses	15	352 220	415 595
Cash and cash equivalents	9	14 639	27 728
Total current assets		**383 310**	**478 333**
Total assets		**579 042**	**832 525**

(NOK 1 000)	Note	31.12.13	31.12.12
EQUITY AND LIABILITIES			
Equity			
Share capital	10	40 813	40 813
Share premium		740 387	740 387
Other paid-in capital		29 570	29 570
Retained earnings		(573 770)	(423 983)
Total equity		**237 000**	**386 788**
Liabilities			
Non-current liabilities			
Pension liabilities	21	14 012	13 254
Convertible loans	25	40 697	0
Deferred tax	15	0	111 829
Total non-current liabilities		**54 708**	**125 083**
Current liabilities			
Current borrowings	11	164 989	169 313
Loan from subsidiary	22	73 323	29 359
Trade creditors		8 101	43 585
Other current liabilities	12	40 920	78 396
Total current liabilities		**287 334**	**320 654**
Total liabilities		**342 042**	**445 737**
Total equity and liabilities		**579 042**	**832 525**

Alta, 19 March 2014

Johan Petter Barlindhaug
Chair

Harriet Hagan
Director

Heidi M Petersen
Director

Anders Onarheim
Director

Jogeir Romestrand
Director

Alexander Krogh
Director

Erik Karlstrøm
CEO

Statement of changes in equity

(NOK 1 000)	Share capital	Share premium	Other paid-in capital	Retained earnings	Total equity
Equity at 1 January 2012	25 224	606 141	29 570	(289 485)	371 451
Transactions with owners:					
Share issues	15 589	140 301	0	0	155 891
Share issue expenses (net after tax)	0	(6 056)	0	0	(6 056)
Comprehensive income:					
Total compehensive income for 2012	0	0	0	(134 498)	(134 498)
Equity at 31 December 2012	**40 813**	**740 387**	**29 570**	**(423 983)**	**386 788**
Equity at 1 January 2013	40 813	740 387	29 570	(423 983)	386 788
Comprehensive income:					
Total compehensive income for 2013	0	0	0	(149 787)	(149 787)
Equity at 31 December 2013	**40 813**	**740 387**	**29 570**	**(573 770)**	**237 000**

Cash flow statement

(NOK 1 000)	Note	2013	2012
Cash flow from operating activities			
Loss before income tax		(716 776)	(558 582)
Adjustments:			
Tax refunded	15	415 777	531 141
Deprecitiation	16	8 880	10 183
Gain from sales of licences	23	(98 576)	(46 931)
Impairment of capitalised exploration expenses	17	502 665	271 995
Pensions		(845)	(706)
Transaction costs and interest on borrowings recognised in P&L	18	30 440	33 549
Changes in fair value of conversion rights recognised in P&L	18	(433)	0
Changes in trade creditors		(35 484)	(21 416)
Changes in other accruals		(9 179)	47 204
Net cash flow from operating activities		**96 467**	**266 436**
Cash flow from investing activities			
Purchase of property, plant and equipment	16	(2 292)	(3 865)
Proceeds from sales of licences	23	86 770	73 237
Capitalised exploration and licence costs	15,17	(251 547)	(249 421)
Proceeds from payments of other non-current receivables	7	5 091	3 703
Net cash flow from investing activities		**(161 978)**	**(176 346)**
Cash flow from financing activities			
Funds drawn current borrowings	11,22	529 025	504 101
Repayments of current borrowings	11,22	(494 844)	(709 329)
Funds drawn convertible loans	25	42 028	0
Transaction costs and interest on borrowings paid	11,18	(23 788)	(38 667)
Proceeds from share issues		0	147 480
Net cash flow from financing activities		**52 421**	**(96 415)**
Net change in cash and cash equivalents		**(13 089)**	**(6 325)**
Cash and cash equivivalents at 1 January	9	27 728	34 054
Cash and cash equivivalents at 31 December	**9**	**14 639**	**27 728**

Notes

North Energy ASA

Note 1

General information

North Energy ASA is a public limited company incorporated and domiciled in Norway, with its main office in Alta. The company's shares were listed on Oslo Axess on 5 February 2010. The company's only business segment is exploration for oil and gas on the Norwegian continental shelf.

The financial statements were approved by the board of directors and CEO at 19 March 2014.

Note 2

Summary of significant accounting policies

2.1 Basis for preparation

The financial statements of North Energy ASA have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and in accordance with the additional requirements pursuant to the Norwegian Accounting Act.

2.2 Accounting policies

Accounting policies described in the consolidated financial statements of North Energy Group also apply for North Energy ASA. See the description of accounting policies in note 2 to the consolidated financial statements of North Energy group. Investment in subsidiaries are valued in the financial statements of North Energy ASA (parent company) at cost, less any necessary impairment. Impairment to recoverable amount will be carried out if impairment indicators are present and recoverable amount is less than book value. Recoverable amount is the higher of the asset's fair value less costs required to sell the asset and its value in use. Impairments are reversed when the cause and basis of the initial impairment is no longer present.

Note 3

Financial risk management

See note 3 in the consolidated financial statements.

Note 4

Critical accounting estimates and judgements

See note 4 in the consolidated financial statements.

Note 5

Payroll and related expenses, remuneration of directors and management

Amounts in NOK 1 000	2013	2012
Salaries	34 770	40 274
Payroll tax	3 149	2 978
Pension costs (see note 21)	9 760	8 862
Other benefits	3 253	4 197
Total	50 933	56 310
Average number of employees	35.1	41.1

Remuneration of directors and management

See note 5 in the consolidated financial statements.

Information about loans to employees

See note 5 to the consolidated financial statements.

The board of directors' declaration regarding determination of salary and other remuneration to management employees

The board of directors will prepare a declaration in accordance with section 6-16a of the Norwegian Public Limited Liability Companies Act (Allmennaksjeloven). In accordance with section 7-31b of the Norwegian Accounting Act, the content of this declaration is presented.

The main principle for the company is that remuneration to management is competitive in such a way that the company is able to attract and retain competent management employees. The remuneration will be competitive and based on individual criteria such as experience, area of responsibility and achievement of results. The remuneration system for management employees will furthermore encourage a strong and lasting profit-oriented organisation which contributes to increasing shareholder value.

Total remuneration to management employees includes:
(1) Market-based fixed salary.
(2) Bonus. The management is included in the company's general employee bonus programme. The bonus is limited to 1/3 of fixed salary, with distribution 50/50 in cash and bonus shares, where the cash bonus is earned first. The bonus is linked to the achievement of specified parameters for each member of the executive management's area of responsibility. Both financial and non-financial parameters are used.
(3) Pension and insurance. The management is included in the company's general pension and insurance scheme. The CEO has in addition an early retirement pension scheme from the age of 62 until the ordinary retirement age (67 years), where the pension is 67% of final annual salary.
(4) Severance payment. The CEO and CFO have agreements covering severance payments. In the event of resignation at the request of the board of directors, they have the right to a severance payment equivalent to two years of gross fixed salary.
(5) Other benefits such as free car, loan interest rate benefit, and regular allowances to cover telephone, internet, training fee and travel insurance.

Note 6

Other operating expenses and remuneration to auditor

Other operating expenses include

Amounts in NOK 1 000	2013	2012
Travelling expenses	4 310	4 739
Lease expenses (see note 20)	6 150	6 407
Consultant and other fees	7 070	9 965
Advertising costs	1 904	3 182
Other administrative expenses	13 605	18 233
Total	33 038	42 525

Remuneration to auditor is allocated as specified below

Amounts in NOK 1 000	2013	2012
Audit	409	435
Attestations	28	34
Accounting assistance	11	5
Due diligence, share issues and prospectus	0	67
Other assistance	34	33
Total, excl VAT	482	574

Note 7
Other non-current receivables

Other non-current receivables include

Amounts in NOK 1 000	2013	2012
Loans to employees (note 5)	2 051	7 154
Deposit	458	446
Pension assets (note 21)	14 993	11 999
Total	17 503	19 599

Note 8
Prepayments and other receivables

Prepayments and other receivables include

Amounts in NOK 1 000	2013	2012
Prepaid expenses	3 449	1 173
VAT receivable	1 827	3 204
Receivables, from interests in licences	9 781	30 453
Other items	1 364	69
Total	16 421	34 898

Note 9
Cash and cash equivalents

Amounts in NOK 1 000	2013	2012
Bank deposits	14 639	27 728
Total cash and cash equivalents	14 639	27 728
Of this:		
Restricted cash for witheld taxes from employees salaries	2 581	2 845

Note 10
Share capital and shareholder information

See note 10 in the consolidated financial statements.

Note 11
Current borrowings

Current borrowings include

Amounts in NOK 1 000	2013	2012
Revolving credit facility (exploration loan), funds drawn *	170 000	150 844
Revolving credit facility (exploration loan), transaction costs	(5 011)	(9 757)
Loan from Lime Petroleum Plc, incl accrued interest **	0	28 227
Balance 31 December	164 989	169 313

* In 2012, the group expanded its exploration loan facility from NOK 760 million to NOK 950 million, and also entered into an agreement to renew its exploration loan facility for the period 2013-2015. Interest rate is NIBOR + 2.25%. The loan is secured by a pledge in tax receivables from refund pursuant to the Norwegian Petroleum Tax Act and the interests in production licences which the company at any time has.

** The loan from Lime Petroleum Plc has been settled in connection with the completion of the sale of interests in licences to Lime Petroleum Norway AS in 2013. The loan was netted against the sale sum of NOK 28.2 million. The loan was NOK 27.5 million plus incurred interest and interest rate was four per cent.

Note 12
Other current liabilities

Amounts in NOK 1 000	2013	2012
Public duties payable	3 208	3 421
Accruals, from interests in licences	13 717	39 222
Holiday pay and bonus payable	9 306	17 323
Fair value of conversion rights	899	0
Other accruals for incurred costs	13 791	18 430
Total	40 920	78 396

Note 13

Investment in subsidiaries

Amounts in NOK 1 000

Company	Acquisition date	Location	Equity and voting share	Book value 31.12.2013	Book value 31.12.2013
4Sea Energy AS	11.02.2010	Norway	100%	50 000	50 000
Total				50 000	50 000

On 11 February 2010 North Energy ASA completed the acquisition of 100% of the outstanding shares in 4Sea Energy AS. The consideration for the aquisition comprises 1.886.792 new issued shares in North Energy ASA, each with par value of NOK 1 and a price of NOK 26.5, i.e. total consideration of NOK 50 million.

Note 14

Related parties

See note 14 in the consolidated financial statements.

Note 15

Tax

Specification of income tax

Amounts in NOK 1 000	2013	2012
Calculated refund tax value of exploration costs this year	352 453	415 828
Of this, refund not recognised in income statement (acquisition of licences recognised net of tax)	(120)	(62)
Correction refund previous years	(52)	(261)
Change deferred tax in balance	213 397	90 396
Of this, deferred tax asset not recognised in income statement (acquisition of licences recognised net of tax)	0	(1)
Of this, deferred tax not recognised in income statement (sale of licences recognised net of tax)	(82)	(87 806)
Of this, deferred tax asset related to items in comprehensive income recognised in comprehensive income	1 085	6 508
Of this, deferred tax asset related to equity transactions recognised directly in equity	0	(2 355)
Total income tax credit	566 682	422 248

Specification of tax receivable refund tax value exploration expenses

Amounts in NOK 1 000	31.12.13	31.12.12
Calculated refund tax value of exploration costs this year	352 453	415 828
Correction refund previous years, assessed but not settled	(233)	(233)
Total tax receivable refund tax value exploration expenses	352 220	415 595

Oil-exploration companies operating on the Norwegian continental shelf may claim a 78% refund of their exploration costs limited to taxable losses for the year. The refund is paid in December the following year.

Note 15

Tax (continued)

Specification of temporary differences, tax losses carried forward and deferred tax

Amounts in NOK 1 000	31.12.13	31.12.12
Property, plant and equipment	(3 209)	596
Capitalised exploration and licence costs	17 444	268 820
Pensions	982	(1 255)
Current borrowings	5 011	9 757
Convertible loans and conversion rights	433	0
Tax losses carried forward, onshore	0	0
Tax losses carried forward, offshore only 27% basis (2012: 28%)	(105 652)	(84 136)
Tax losses carried forward, offshore only 51% basis (2012: 50%)	(918)	(904)
Tax losses carried forward, offshore both 27% and 51% basis (2012: 28% and 50%)	(110 144)	(97 511)
Total basis for deferred tax	(196 054)	95 367
Deferred tax liability (-) / tax asset (+)	101 568	(111 829)
Not capitalised deferred tax asset (valuation allowance)	0	0
Deferred tax liability (-) / tax asset (+) in balance	101 568	(111 829)

Companies operating on the Norwegian continental shelf under the offshore tax regime can claim the tax value of any unused tax losses related to its offshore activities to be paid in cash from the tax authorities when offshore activities subject to additional tax cease. Deferred tax assets that are based on offshore tax losses carried forward are therefore recognised in full.

Reconciliation of effective tax rate

Amounts in NOK 1 000	2013	2012
Profit before tax	(716 776)	(558 582)
Expected income tax credit 78%	559 085	435 694
Adjusted for tax effects (28% - 78%) of the following items:		
Permanent differences	19 429	(3 580)
Correction previous years	(56)	(812)
Interest on tax losses carried forward offshore	1 501	1 402
Finance items	(12 284)	(10 456)
Changed tax rates from 1 January 2014	(993)	0
Change in valuation allowance for deferred tax assets and other items	0	0
Total income tax credit	566 682	422 248

Note 16

Property, plant and equipment

Amounts in NOK 1 000	Equipment, office machines, etc
2013	
Cost:	
At 1.1.2013	42 904
Additions	2 292
Disposals	0
At 31.12.2013	45 195
Depreciation and impairment:	
At 1.1.2013	(27 150)
Depreciation this year	(8 880)
Impairment this year	0
Disposals	0
At 31.12.2013	(36 030)
Carrying amount at 31.12.2013	9 166
2012	
Cost:	
At 1.1.2012	39 039
Additions	3 865
Disposals	0
At 31.12.2012	42 904
Depreciation and impairment:	
At 1.1.2012	(16 967)
Depreciation this year	(10 183)
Impairment this year	0
Disposals	0
At 31.12.2012	(27 150)
Carrying amount at 31.12.2012	15 754
Economic life	3-10 years
Depreciation method	linear

Note 17

Capitalised and expensed exploration and licence costs

(a) Capitalised exploration and licence costs

Amounts in NOK 1 000	Capitalised exploration and licence costs
2013	
Cost:	
At 1.1.2013	268 839
Additions, capitalised exploration and licence costs *	251 427
Disposals, impairment **	(502 665)
Disposals, sale	(105)
At 31.12.2013	**17 496**
Amortisation and impairment:	
At 1.1.2013	0
Amortisation this year	0
Impairment this year **	(502 665)
Disposals **	502 665
At 31.12.2013	**0**
Carrying amount at 31.12.2013	**17 496**

* Additions relate mainly to drilling of exploration wells in PL 535 (Norvarg) and PL 299 (Frode). The drilling in PL 535 is an appraisal well on the Norvarg discovery.

** Disposals relate to impairment of capitalised expenses in PL 535 (Norvarg) and PL 299 (Frode). The Norvarg discovery is assessed not to be commercially recoverable and the exploration well in PL 299 (Frode) was a dry well result.

Amounts in NOK 1 000	Capitalised exploration and licence costs
2012	
Cost:	
At 1.1.2012	367 657
Additions *	286 359
Disposals, impairment **	(271 995)
Disposals, sale **	(113 182)
At 31.12.2012	**268 839**
Amortisation and impairment:	
At 1.1.2012	0
Amortisation this year	0
Impairment this year **	(271 995)
Disposals **	271 995
At 31.12.2012	**0**
Carrying amount at 31.12.2012	**268 839**

* Additions relate mainly to drilling of exploration wells in PL 450 (Storebjørn) and PL 385 (Jette), and acquisition of licence PL 498 (Skagen) from subsidiary 4Sea Energy AS (see note 24).

** Disposals relate mainly to impairment of capitalised expenses in PL 450 (Storebjørn), PL 385 (Jette) and PL498 (Skagen) owing to dry well results, and the sale of PL 433 (Fogelberg).

Depreciation method: capitalised exploration and licence costs will be depreciated using the unit-of-production method, if and when reserves are produced.

(b) Expensed exploration and licence costs

Specification of expensed exploration and licence costs:

Amounts in NOK 1 000	2013	2012
Share of exploration expenses from participation in licences, incl seismic, G&G, dry wells, carry	84 336	88 066
Impairment of capitalised exploration expenses	502 665	271 995
Seismic and other exploration costs	109 550	113 843
Total exploration and licence costs	**696 551**	**473 904**

Note 18

Finance income and costs

Finance income

Amounts in NOK 1 000	2013	2012
Interest income bank deposits	117	1 289
Interest income on tax refund	6 032	9 016
Other interest income	186	241
Foreign exchange gain	5 772	7 389
Finance income, from interests in licences	172	308
Change in fair value of conversion rights	433	0
Other finance income	2	1
Total finance income	**12 714**	**18 243**

Finance costs

Amounts in NOK 1 000	2013	2012
Interest expense and transaction costs on current borrowings	27 752	33 156
Interest expenses convertible loans	1 249	0
Interest expense on loan from subsidiary	1 439	393
Foreign exchange loss	7 123	6 655
Other finance costs	1 101	630
Total finance costs	**38 664**	**40 834**

Note 19

Financial instruments

(a) Categories of financial instruments

at 31 December 2013

Amounts in NOK 1 000	Loans and receivables
Assets:	
Other non-current receivables (see note 7)[1]	2 051
Other current receivables (see note 8)[1]	11 144
Cash and cash equivalents	14 639
Total	27 835

Amounts in NOK 1 000	Financial liabilities measured at amortised cost	Financial liabilities at fair value through profit and loss
Liabilities:		
Convertible loans	40 697	
Trade creditors	8 101	
Fair value of conversion rights	0	899
Other current liabilities (see note 12)[2]	23 023	
Current borrowings	164 989	
Loan from subsidiary	73 323	
Total	269 437	899

at 31 December 2012

Amounts in NOK 1 000	Loans and receivables
Assets:	
Other non-current receivables (see note 7)[1]	7 154
Other current receivables (see note 8)[1]	30 521
Cash and cash equivalents	27 728
Total	65 404

Amounts in NOK 1 000	Financial liabilities measured at amortised cost
Liabilities:	
Trade creditors	43 585
Other current liabilities (see note 12)[2]	56 545
Current borrowings	169 313
Loan from subsidiary	29 359
Total	298 803

[1] Pension assets, deposit, prepaid expenses and VAT receivable are excluded since they are not defined as financial instruments.

[2] Public duties payable and accruals for incurred costs are excluded since they are not defined as financial instruments.

(b) Fair value of financial instruments

Fair value other non-current receivables:
The fair value of other non-current receivables is calculated by discounting cash flows with a rate equal to an alternative rate of 5.0% (2012: 5.0%). The discount rate corresponds to 10-year fixed-rate loans with the addition of relevant credit rating.

Amounts in NOK 1 000	2013	2012
Other non-current receivables (see note 7)	2 037	5 955

The carrying amount of cash and cash equivalents and other current receivables is approximately equal to fair value, since these instruments have a short term to maturity. Similarly, the carrying amount of trade creditors, other current liabilities, current borrowings and loan from subsidiary is approximately equal to fair value, since the effect of discounting is not significant.
The carrying amount of convertible loans is approximately equal to fair value, since there has been no material changes in market interest rate since the borrowings.
Fair value of conversion rights is calculated using a model which is based on observable data (level 2 in the fair value hierarchy).

(c) Creditworthiness of financial assets

The company does not have a system that separates receivables and loans by counterparty credit rating.
Non-current receivables are mainly loans to employees. Loans to employees are repaid as agreed and have not been impaired in 2013 or 2012. Cash and cash equivalents are receivables from banks, and Standard & Poor's credit rating of these banks is presented below:

	2013	2012
Bank deposits:	14 639	27 728

Amounts in NOK 1 000	2013	2012
No external credit rating	0	0
A	14 639	27 728
AA	0	0
Total	14 639	27 728

Note 19
(continued)

(d) Financial risk factors
See note 3 for financial risk factors and risk management, sensitivity analysis and capital management.

Note 20
Leases

The company has no finance leases.
The company has entered into operating leases for office premises, cars, machinery and office furniture.
The leases are cancellable and do not impose any restrictions on the company's dividend policy or financing opportunities.

Lease costs consist of ordinary lease payments and include:

Amounts in NOK 1 000	2013	2012
Lease office premises (inclusive joint costs)	5 969	5 622
Lease machinery and office furniture	45	429
Lease cars	137	356
Total lease costs	6 150	6 407

Future minimum rents related to non-cancellable leases and subleases fall due as follows:

Amounts in NOK 1 000	2013	2012
Within 1 year	2 746	2 746
1 to 5 years	10 984	10 984
After 5 years	8 238	10 984
Total	21 967	24 713

Note 21
Pension

See note 21 in the consolidated financial statements.

Note 22
Loan from subsidiary

Amounts in NOK 1 000	2013	2012
Loan from subsidiary 4Sea Energy AS	73 323	29 359
Total	73 323	29 359

Interest rate is NIBOR + 3%. The loan is planned to be repaid in 2013.

Note 23
Gain from sales of licences

See note 22 in the consolidated financial statements.

Note 24
Acquisition of licences from subsidiary

In 2012, North Energy ASA acquired the interests in PL 498, PL 503 og PL 503B from its wholly owned subsidiary 4Sea Energy AS for a consideration of NOK 37 million in addition to the pro & contra settlement. Effective date for the transaction was 31.12.2012.

Note 25
Convertible loans

See note 23 in the consolidated financial statements.

Note 26
Contingent liabilities

The company has not been involved in any legal or financial disputes in 2013 or 2012 where an adverse outcome is considered more likely than remote.

Note 27
Shares in licences and obligations

See note 25 in the consolidated financial statements.

Note 28
Events after the balance sheet date

See note 26 in the consolidated financial statements.

Responsibility statement by the board of directors and CEO

We declare, to the best of our judgement, that the annual financial statements for the period from 1 January to 31 December 2013 have been prepared in accordance with the applicable accounting standards, and that the information in the accounts fairly reflects the company's and group's assets, liabilities, financial position and results as a whole. We also declare that the directors' report provides a true and fair view of the company's and group's performance, results and position, along with a description of the most important risk and uncertainty factors facing the company and group.

Alta, 19 March 2014

Johan Petter Barlindhaug
Chair

Harriet Hagan
Director

Heidi M Petersen
Director

Anders Onarheim
Director

Jogeir Romestrand
Director

Alexander Krogh
Director

Erik Karlstrøm
CEO

Auditor's report

pwc

To the Annual Shareholders' Meeting of North Energy ASA

Independent auditor's report

Report on the Financial Statements

We have audited the accompanying financial statements of North Energy ASA, which comprise the financial statements of the parent company and the financial statements of the group. The financial statements of the parent company and the financial statements of the group comprise the balance sheet as at 31 December 2013, income statement, statement of comprehensive income, changes in equity and cash flow 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 International Financial Reporting Standards as adopted by EU, 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

In our opinion, the financial statements are prepared in accordance with the law and regulations and present fairly, in all material respects, the financial position for the parent company and the group North Energy ASA as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

PricewaterhouseCoopers AS, Storgata 2, Postboks 6128, NO-9291 Tromsø
T: 02316, org. no.: 987 009 713 MVA, www.pwc.no
Statsautoriserte revisorer, medlemmer av Den norske Revisorforening og autorisert regnskapsførerselskap

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report and the statements on Corporate Governance and Corporate Social Responsibility

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

Opinion on Registration and Documentation

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

Tromsø, 19 March 2014
PricewaterhouseCoopers AS

Kent-Helge Holst

Kent-Helge Holst
State Authorised Public Accountant (Norway)

Note: This translation from Norwegian has been prepared for information purposes only.

Main office, Alta
Phone: +47 78 60 79 50
post@northenergy.no
www.northenergy.no

Visiting address:
Kunnskapsparken Syd
Markveien 38B, Alta

Postal address:
P O Box 1243
NO-9504 Alta
Norway

Legal org number:
NO 891797702 MVA

Offices:

Oslo
Visiting address:
Karl Johansgt 13
NO-0154 Oslo
Norway

Stavanger
Visiting address:
Øvre Holmegate 18
Postal address:
P O Box 250
NO-4002 Stavanger
Norway

Tromsø
Visiting address:
Tromsø Forskningspark
Sykehusveien 23
NO-9294 Tromsø

Design: Riktig Spor AS
Cover photo: Rune Stokmo