

NORWEGIAN ENERGY COMPANY ASA
ANNUAL REPORT
2006

Norwegian Energy Company ASA

Board of directors report 2006

General

Norwegian Energy Company ASA (Noreco) was established in January 2005 as an independent Norwegian Oil Company. The Head Office is in Stavanger Norway. The main objective for the Company is to explore, develop and produce oil- and gas resources.

The ambition is to establish Noreco as a long term industrial Company strongly focused on the Norwegian Continental Shelf as the basis for international growth.

Assets

Noreco has been awarded production licenses in predefined areas (APA) in 2005 and 2007. In addition the Company has been awarded one license in connection with the 19th Round license awards in 2006. During the year the Company has acquired five licenses. By year end Noreco had ownership in the following production licenses on the Norwegian Continental Shelf:

<u>Field</u>	<u>Noreco ownership</u>
PL378	20,0 %
PL382	20,0 %
PL385	20,0 %
PL391	20,0 %
PL271/302	30,0 %
PL006c	25,0 %
PL148	20,0 %
PL347	17,5 %
PL348	17,5 %

In the beginning of 2007 Noreco has been awarded ownership in the following licenses through the APA 2006:

<u>Field</u>	<u>Noreco ownership</u>
PL398S	30,0 %
PL400	30,0 %
PL411	100,0 %
PL412	40,0 %
PL414	20,0 %
PL417	20,0 %
PL435	20,0 %

Operatorship

In the beginning of 2006 Noreco was qualified as a licensee on the Norwegian Continental Shelf. In 4th quarter 2006 Noreco also was qualified as operator on the Norwegian Continental Shelf. Noreco is working closely with operators on several fields and in connection with the APA 2006 awarded early 2007 Noreco became operator of 2 fields (PL412 and PL411).

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During 2006 Noreco started the process of establishing a UK operation, and early 2007 a UK branch of Noreco has been registered.

Health, environment, safety and quality (HSE-Q)

Quality

The Company has developed quality systems covering all necessary business aspects in Noreco. The systems are established according to the regulations set for the qualified licensees in the NCS. The quality system of Noreco covers health, environment, security and quality. Noreco has during the year developed the systems, and was during 4. quarter 2006 qualified as an operator on the NCS.

Health and environment

Sickness during 2006 was 0 percentage. Noreco has established an agreement with a company doctor. The working environment test is part of the quality system of the Company.

Security control and environment

Internally

No accidents have been reported during 2006. The HSE-Q work is highly focused in the management of Noreco. The activities of Noreco have not resulted in any pollution or other damage to the external environment.

Noreco Licenses

Noreco has no producing fields for the moment.

Financials

Key financials

Noreco had no production in 2006, and thereby no operating income.

The Company had an ordinary result before tax of – MNOK 87,2 in 2006 (-MNOK 24,9 in 2005). Net profit amounted to – MNOK 19,8 (-MNOK 5,5 in 2005).

The profit and loss statement and the balance sheet states fairly the development and the result of the business of the Company and status as per December 31., 2006.

Exploration activity

During 2006 the Company has had ownership in 9 exploration licenses (see separate schedule). Through the APA 2006 awarded in January 2007 Noreco now has ownership in additional 7 exploration licenses.

Noreco is developing the portfolio of exploration licenses during 2007. This will secure the future development of the Company.

Market risk

Noreco has currently no production. The earnings of the Company is very much dependant on future developments, awards and/or acquisition of production.

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In accordance with the Norwegian Accounting Act section 3-3 the directors confirm the going concern basis being used preparing the accounts.

Working environment

Noreco has during the year hired and addition of 12 employees, and has at year end 18 permanent employees. During 2006 the absence due to illness was zero. By year end 4 of the employees were women.

Result for the year

The Board proposes the loss for the year of MNOK 19,9 to be booked against other equity. Total equity as per December 31., 2006 was MNOK 55,7. This equals an equity ratio of 50 percent.

Stavanger, 31. December 2006

3. October 2007

Lars Arne Takla
Chairman

Tollak Melberg
Board member

Gunnar Halvorsen
Board member

Roger O'Neal
Board member

John Anthony Hogan
Board member

Scott Irving Kerr
Managing Director

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Income Statement

NOTES	2006	2005	
OPERATING REVENUES AND EXPENSES			
4	Exploration expenses	25 734 968	7 809 495
2	Payroll and related expenses	31 312 043	3 184 527
5	Depreciation, depletion and amortisation of fixed assets	693 749	58 422
3	Other operating expenses	29 493 852	13 850 801
	Total operating expenses	87 234 613	24 903 245
		(87 234 613)	(24 903 245)
Operating income (loss)			
FINANCIAL INCOME AND EXPENSES			
	Interest income	1 373 944	154 299
	Interest expense	(2 000 674)	(1 107)
	Other financial expenses	(202 996)	(3 077)
	Financial items, net	(829 726)	150 115
	Income (loss) before taxes	(88 064 339)	(24 753 130)
10	Income taxes	68 205 261	19 265 610
	Ordinary income (loss)	(19 859 078)	(5 487 520)
	NET INCOME (LOSS)	(19 859 078)	(5 487 520)
	Earnings per share	(693)	(1 564)
	Diluted earnings per share	(693)	(1 564)
	Average weighted no. of shares as at 31 Dec	28 654	3 509

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Balance as per 31. desember

NOTES		2006	2005
	ASSETS		
	Fixed assets		
	Intangible Assets		
10	Deferred tax assets	5 146 564	1 211 652
1,5	Exploration licenses/capitalized exploration expenditures	8 882 000	
	Total intangible fixed assets	14 028 564	1 211 652
	Tangible fixed assets		-
5	Plant, machinery and other equipment	1 803 512	1 463 735
	Total tangible fixed assets	1 803 512	1 463 735
	Total fixed assets	15 832 076	2 675 387
	Current assets		
	Accounts receivable against operators	312 154	-
6	Other receivables	4 529 458	1 911 200
10	Current tax receivables	77 464 207	19 441 578
	Total current receivables	82 305 820	21 352 778
14	Cash and bank equivalents	11 970 046	41 615 897
	Total current assets	94 275 866	62 968 675
	TOTAL ASSETS	110 107 942	65 644 062

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Balance as per 31.december

NOTES	2 006	2005	
EQUITY AND LIABILITIES			
Capital and reserves			
Paid-in capital			
7,8	Share capital (31.422 shares at NOK 1000)	31 422 000	2 135 000
7,8	Not registered capital increase		51 904 861
7,8	Total paid-in capital	48 260 662	
	Retained earnings	79 682 662	54 039 861
Other equity			
7,8	Total retained earnings	(23 958 978)	(4 099 900)
		(23 958 978)	(4 099 900)
	Total equity	55 723 684	49 939 961
Debt			
Long term liabilities			
9	Pension Obligation	252 179	
1,11	Licence obligation	-	
	Long term loans	252 179	-
Liabilities			
	Trade creditors	5 851 535	10 420 661
13	Loan from financial institution	35 000 000	
	Employee tax liabilities, duties	4 199 746	
12	Other current liabilities	9 080 798	5 283 440
	Total creditors, amounts falling due within one year	54 132 079	15 704 101
	Total liabilities	54 384 258	15 704 101
	TOTAL EQUITY AND LIABILITIES	110 107 942	65 644 062

Stavanger, 31. December 2006
3. October 2007

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Managing Director

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Cash Flow Statement

	2 006	2005
NET CASH FLOW FROM OPERATING ACTIVITIES		
Operating income before tax	(88 064 339)	(24 753 130)
Depreciation and amortisation of fixed assets and intangible assets	693 749	58 422
Tax refund (including interest)	17 573 024	-
Pension cost with no cash impact	252 179	-
Change in accounts receivables	(2 930 413)	(1 911 200)
Change in accounts payables	(4 569 126)	10 420 661
Change in other current assets/liabilities	(3 328 200)	5 283 440
Net cash inflow / (outflow) from operating activities	(80 373 126)	(10 901 807)
NET CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(9 915 526)	(1 522 157)
Net cash inflow / (outflow) from investing activities	(9 915 526)	(1 522 157)
CASH FLOW FROM FINANCING ACTIVITIES		
Short term loan	35 000 000	-
Paid-up share capital	25 642 801	54 039 861
Net cash inflow / (outflow) from financing activities	60 642 801	54 039 861
	-	-
Net increase / (decrease) in bank deposit, cash and cash equivalents	(29 645 851)	41 615 897
Bank deposit, cash and cash equivalents at beginning of year	41 615 897	-
Bank deposit, cash and cash equivalents at end of year	11 970 046	41 615 897

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Statement of Changes in equity

(NOK 1000)

	Note	Share capital	Share premium fund	Other equity	Paid-in but not registered capital	Total equity
Equity as at 1 Jan 2005		-	-	-	-	-
Net loss for the year		-	-	(5 488)	-	(5 488)
Paid in Capital		1 085	2 025	-	-	3 110
Capital increase April 2005		700	1 306	-	-	2 006
Capital increase June 2005		350	653	-	-	1 003
Capital increase December 2005		-	-	-	52 153	52 153
Share issue costs		-	(3 984)	1 388	(248)	(2 844)
		-	-	-	-	-
Equity as at 31 Dec 2005		2 135	-	(4 100)	51 905	49 940
Equity as at 1 Jan 2006:		2 135	-	(4 100)	51 905	49 940
Net loss for the year		-	-	(19 859)	-	(19 859)
Capital increase February 2006		20 341	31 564	-	(51 905)	-
Capital increase May 2006		959	1 790	-	-	2 749
Capital increase September 2006		7 910	14 763	-	-	22 673
Capital increase February 2006		77	144	-	-	221
Equity as at 31 Dec 2006		31 422	48 260	(23 959)	-	55 723

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Notes to the financial statement 2006

General

Norwegian Energy Company ASA (NORECO) is a public limited company registered in Norway. The company has its office in Stavanger.

NOTE 1 Accounting principles

The consolidated accounts of Noreco ASA will be drawn up in accordance with international accounting standards published by the International Accounting Standards Board, as well as additional provisions pursuant to the Norwegian Accounting Act.

The consolidated accounts will comprise the parent company Noreco ASA and any subsidiaries. Underpinning the Group accounts is the principle of historical cost, with the following modifications:

- Derivatives, financial assets and liabilities, and assets held for sale. Financial assets are valued initially at fair value. Financial liabilities are valued initially at amortised cost.
- Assets are assessed for any impairment. If the residual value of an asset is less than book value, the asset will be written down to its residual value.

Group financial statements

The Group financial statements will comprise Noreco ASA as well as any subsidiaries in which Noreco ASA has a controlling influence on the businesses' finances and operations in order to gain financial or other benefits.

A controlling interest is normally achieved when the Group controls, directly or indirectly, more than 50 per cent of the votes in the other company or is otherwise able to exercise de facto control of the other company.

The Group financial statements have been produced by adding together the accounts of the parent company and the individual subsidiaries, which have been drawn up using the same accounting principles. For consolidation purposes, intra-group revenues and costs, shareholdings, outstanding balances, dividends, group contributions, and realized and unrealized gains on transactions between consolidated companies have been eliminated. While any unrealized/realized losses on transactions between consolidated companies are eliminated, they are also considered an indicator that the asset transferred should be written down.

Business combinations

Acquired or newly incorporated businesses are included in the Group accounts from the date of acquisition/incorporation. The takeover date is defined as the date on which Noreco achieves control over the target company's financial and operational assets. This date may diverge from the actual date on which the assets were transferred. Sold or discontinued businesses are included in the Group accounts until control is ceded. Comparable figures are not corrected for acquisitions, sold or discontinued businesses. A separate reference will be made in the Notes in the event that a business is discontinued.

For accounting purposes, the acquisition method is used in connection with the purchase of businesses. Acquisition cost equals the fair value of the assets used as consideration, the equity instruments issued, liabilities assumed in connection with the transfer of control, as well as direct costs associated with the actual purchase. Acquisition cost is measured against the fair value of the newly acquired assets and liabilities. Identifiable intangible assets are included in the value of the acquisition if they are separable from other assets and their value can be reliably measured. When calculating fair value, attention is paid to the tax

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Notes to the financial statement 2006

implications of the reassessments made. If the acquisition cost at the time of the acquisition exceeds the fair value of the net assets acquired, goodwill arises. Goodwill is calculated using the same functional currency which is used in the acquired business. If the fair value of the net assets acquired exceeds the acquisition cost, the excess amount is taken to income on the takeover date.

The purchase of licenses entitling the holder to explore for and extract hydrocarbons requires that for each purchase an assessment is made of whether it shall be classified as an acquisition or the purchase of an asset. As a rule, the purchase of licenses which are being developed or are already in production will be treated as an acquisition. Other license purchases are treated as asset purchases. The allocation of excess value and goodwill may be adjusted up to 12 months after the takeover date, if it should prove that the asset or liability was incorrectly valued at that time. When a subsidiary is sold or discontinued, the gain or loss is the difference between the sales price/liquidation value, less sales/liquidation costs, and the book value of the net assets, including goodwill, on the date of the sale/discontinuation.

Foreign currency

The Group financial statements are presented in NOK. This is also the functional currency of the parent company Noreco ASA. A functional currency will be specified for each of the Group's individual businesses. This currency may be different to the functional currency of Noreco ASA. A business's functional currency will be the currency in which the business normally generates and spends cash.

Transactions in another currency are translated when they are first recognized into the business's functional currency at the exchange rate applicable on the transaction date. Differences between the exchange rate on the transaction date and the payment date are taken to income as agio/disagio under financial items. Monetary items (receivables/liabilities) in other currencies are translated into the functional currency at the exchange rate applicable on the translation date. The difference between the exchange rate applicable on the date the monetary item was recognized and the translation date results in a foreign exchange gain/loss.

Foreign exchange gains and losses relating to the hedging of future cash flows are included in the same accounting item and at the same time as the hedged cash flow is recognized. The assets and liabilities of businesses with a functional currency other than the presentation currency are translated into the presentation currency at the exchange rate applicable on the balance sheet day. Revenues and costs for businesses in other functional currencies are translated into the presentation currency at the average exchange rate for that currency, unless to do so would give an incorrect picture of the business concerned. Foreign exchange differences which arise when translating equity from the exchange rate applicable at the start of the year to the rate applicable on the balance sheet day, and translating Income Statement items from average exchange rates to the exchange rates applicable on the balance sheet day are taken directly to equity as a separate item for translation differences.

Financial instruments

General

Purchases and sales of financial instruments are recorded at fair value on the date the transaction took place. Fair value equals the transaction price. Any changes in fair value occurring before the settlement date are included in the Income Statement and Balance Sheet.

Classification

Financial instruments are divided into the following categories at the time of recognition:

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Notes to the financial statement 2006

- Financial assets at fair value with result recognized in the profit and loss statement
- Loans and receivables at amortized cost
- Investments held until due date at amortized cost
- Available for sale at fair value

Financial liabilities are divided into the following categories:

- available for sale at fair value
- financial liabilities at fair value with recognized in the profit and loss statement
- other financial liabilities at amortized cost

Non-recognition of financial assets and liabilities

When the Group has transferred the risk of return, control or right to cash flows is terminated, the financial assets cease to be recognized. When the duty to provide resources has been met, cancelled or expires, financial liabilities cease to be recognized.

Hedging

The Group will employ financial derivatives to hedge material exposure to foreign exchange risks and price risks which occur in the course of its operating, financing and investing activities. Financial derivatives are not purchased or issued for trading purposes. Financial derivatives which are not classified as hedging instruments are accounted for and presented in the profit and loss statement as financial instruments at fair value.

Financial derivatives are recognized initially at cost. In subsequent periods financial derivatives are valued at fair value, if fair value can be reliably measured, and are included in the item "other financial instruments" (positive daily value) or as "other current liabilities" (negative daily value).

Gains and losses are immediately accounted for in the profit and loss statement. If financial derivatives qualify as hedging instruments, gains and losses are recognized in accordance with the type of items being hedged. Adjustments in the value of financial derivatives which have been entered into to hedge future cash flows (oil price hedging and foreign exchange hedging of monetary items) are accounted for directly to equity. Adjustments in the value of the non-effective part of the financial derivatives are accounted for in the profit and loss statement. As the hedged cash flows are gradually realized, gains or losses on the financial derivatives included in the same accounting item as the hedged cash flows, or items which have been accounted directly to equity, are reversed. If the hedged transaction leads to the recognition of an asset or liability, gains or losses are included in the valuation of the asset or liability when it is first recognized.

Financial derivatives entered into to hedge recognized assets or liabilities are recognised at fair value. Gains/losses are recognized in the profit and loss statement together with any gains/losses on the hedged asset or liability.

Public grants

Public grants for investments in fixed assets are set off against the acquisition cost of the investment and reduce the recognised acquisition cost and basis for depreciation. The grants are recognized in the profit and loss statement through lower depreciation of the fixed assets for which they were made.

Other public grants are set off against the costs which the grants are intended to cover.

Segments

The Group's business activities are reported as one segment.

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Principles for revenue recognition

Revenues are recognised when it is probable that transactions will generate future financial benefits to the company, and the size of the amount due can be reliably estimated. Sales revenues are recorded net of VAT and discounts. Revenues from the sale of goods are recognised when delivery has taken place and the risk transferred, and the company has established a receivable with respect to the customer.

Revenues relating to swap agreements in which similar goods and services are exchanged are not recognized in the profit and loss statement. Interest is recognised to the extent that it reflects the effective return on the asset. Royalties are accounted for in the profit and loss statement in accordance with the conditions stipulated in the various royalties agreements. Dividends are recorded in the profit and loss statement when the shareholders' entitlement to receive dividend has been determined.

Revenues from the production of oil, gas and NGL (hydrocarbons) are recorded in the profit and loss statement in proportion to the Group's share of the output from the individual licence, irrespective of whether the output has been sold (rights method). Over/under-production of hydrocarbons pursuant to the rights method is valued at the estimated sales price, less estimated sales costs on the balance sheet day. Over/under-production occurs when the Group has extracted and sold more or less hydrocarbons from a producing field than the Group was entitled to at the time of extraction.

Gains and losses on financial derivatives which have been entered into to hedge the Group's net revenues are recognized on the same line as the underlying revenues.

Production costs and other goods costs

Production costs are costs which can be directly ascribed to the production of hydrocarbons. These comprise costs incurred in the operation and maintenance of production facilities and installations, hours worked, insurance premiums, production taxes, environmental taxes, etc. Other goods costs are costs associated with the purchase, processing and in-house production of non-hydrocarbon goods sold.

Exploration and assessment costs

Oil and gas exploration and assessment costs are recognised in accordance with the "successful effort" (SE) method. Exploration costs will, for example, include the costs of topographical and geophysical (G&G) studies, costs relating to undeveloped areas, costs relating to the drilling of exploration/outstep wells, assessment costs, etc. The basic rule of SE is that such costs are expensed as they accrue, with the exception of costs incurred during exploratory drilling which results in oil and gas being found. For further details, see the section on the treatment of intangible and tangible assets.

Corporation tax

The total tax expense comprises tax payable and any change in deferred tax. Tax is deducted from the company's profit, with the exception of tax on items which are reported directly under equity. The tax effect of the latter items is charged directly to equity. Tax for the period comprises the anticipated tax payable on the taxable profit for the year, adjusted for any changes from previous years. Tax is calculated on the basis of the official tax rates available on the balance sheet day. Deferred tax assets/ liabilities are calculated on the differences between the accounting and taxable value of the company's assets and liabilities, with the exception of deferred tax arising in connection with the initial recognition of goodwill, and deferred tax arising from the initial recognition of purchased oil licences which are not treated as business acquisitions.

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Deferred tax assets are recognised when it is probable that the companies will generate a sufficiently large taxable profit to realise the tax asset. On each balance sheet day the Group reviews its unrecognised tax assets and their book value. The company recognises previously unrecognised deferred tax assets to the extent to which it has become probable that the companies will be able to realise the deferred tax asset. Deferred tax assets are reduced to the extent to which it is no longer probable that the tax asset will be realised. Deferred tax assets and liabilities are measured on the basis of anticipated future tax rates for the companies in which temporary differences have arisen. Deferred tax assets and liabilities are recognised irrespective of when the differences will be reversed. Deferred tax assets are recorded at nominal value and are classified as intangible fixed assets on the balance sheet. Tax payable and deferred tax assets are measured at the tax rate relating to earned, but not allocated equity. The tax effect of dividends is taken into consideration when the company has assumed a liability to distribute a dividend.

Development costs

Development costs are recognised when they accrue unless the following criteria are met in full:

- The products and processes are clearly defined and the cost elements can be identified and reliably measured,
- The product's technical solution has been demonstrated,
- The assets will generate future financial benefits, and
- Sufficient technical, financial and other resources to complete the project are available.

When all the above-mentioned criteria are met, the capitalization of development costs may commence. Costs which have been recognised in previous accounting periods are not capitalised. Capitalised development costs are depreciated on a straight line basis over the estimated life of the asset. The depreciation period will normally not exceed five years. The fair value of development costs will be estimated when an indication of impairment exists or when the need for previous periods' write-downs no longer exists.

Intangible assets

Intangible assets are capitalised if probable future financial benefits can be ascribed to the asset which is owned by the company, and the asset's cost price can be reliably estimated. Intangible assets are recognised at cost price, less any accumulated depreciation and write-downs.

Intangible assets with an infinite economic life are not depreciated, but are written down if the residual value is less than cost price. The residual value is calculated annually as well as when impairment is indicated. Losses resulting from impairment are recorded as a write-down in the income statement. Intangible assets with a finite economic life are depreciated and the need for a write-down is considered in the event of impairment. The depreciable amount is divided systematically over the asset's estimated usable (economic) life. Depreciation is recorded in the income statement. The depreciation estimate and depreciation method are subject to annual review, based on the current financial situation.

The residual value is the higher of net sales value and utility value. Utility value is calculated by discounting expected future cash flows to net present value. The discount rate used reflects the market pricing of money and the risk associated with the specific asset. For assets for which it is not possible to estimate independent cash flows, the residual value is determined with respect to the cash-flow generating class to which the asset belongs.

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Impairment of a cash-flow generating asset class is calculated such that recognised goodwill in the cash-flow generating asset class' balance sheet is reduced first. Any remaining impairment will then be allocated in accordance with the value of the class' other assets.

Goodwill

Goodwill is initially recognised in the balance sheet at cost. Subsequently, goodwill is measured at cost price, less accumulated write-downs. Goodwill is not depreciated. Any write-downs on goodwill cannot be reversed. In connection with each business acquisition, goodwill is allocated to cash-flow generating asset classes at the level which management measures the investment in question.

Patents and licences

Amounts paid for patents and licences are capitalised and depreciated on a straight line basis over the expected life of the asset. The expected life of licences is adjusted with respect to the remaining term of patent rights. Licences will be fully depreciated when the patent period expires. Oil-related licences and capitalised exploration and assessment costs are classified as intangible assets until such time as plans for development and operation have been approved. At this time, the capitalised amount will be transferred to tangible assets and will be depreciated in accordance with the production unit method. When oil-related exploration licences are purchased, the cost price will be capitalised as an intangible asset. After initial recognition they will be treated in accordance with the general principles for intangible assets. Under the "successful effort" method, costs associated with the drilling of exploratory wells and assessment costs are capitalised. Capitalised amounts are classified as intangible assets and are treated according to the general rules of valuation. Exploration and assessment costs not associated with commercially viable finds are charged to expenses. Capitalised exploration and assessment costs are transferred to tangible assets if it is decided to further develop the project.

Software

Expenses associated with the purchase of new computer software are recognized in the balance sheet as intangible assets if these expenses are not part of the cost of a hardware purchase. Software is depreciated on a straight line basis over three years. Costs incurred to maintain the software or retain its future utility are charged directly to expenses unless the change in the software increases its future economic utility.

Tangible assets/property, plant & equipment

Property, plant and equipment includes production facilities, facilities under construction, machinery and equipment, fixtures, etc. Items of property, plant and equipment are valued at cost, less accumulated depreciation and write-downs. Facilities under construction are not depreciated until the asset is put into operation. The cost price comprises the acquisition price plus direct costs associated with the acquisition incurred up until the time the asset is ready to be put into operation. For tangible assets produced in-house, the cost price includes the direct and indirect cost of materials, components, suppliers and salaries. No profit is included when capitalizing tangible assets produced in-house. For tangible assets to which liabilities attach with respect to closure and removal, and this liability is recognized as such, this sum will be added to the acquisition cost of the tangible asset concerned. The cost price of a complex asset is divided into separate parts which are depreciated individually if the economic life of the separate parts varies in length.

Costs accrued after the tangible asset has been put into operation, such as repair and maintenance costs, are normally charged to expenses. If it can be demonstrated that the repair/maintenance has led to increased earnings, the costs associated with this will be capitalized as additions to property, plant and equipment.

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When assets are sold, disposed of or replaced, the cost price and accumulated depreciation is written back, and any losses or gains from the disposal taken to income. Production facilities comprise investments in devices, plant and infrastructure which are used in the production of hydrocarbons. The cost price of production facilities, as well as any capitalized amounts resulting from provisions for closure and removal, is depreciated in accordance with the production unit method. Depreciation is carried out in line with the production of hydrocarbons in relation to the estimated producible reserves in each field. Capitalized costs which can be ascribed to and used during the field's entire lifespan are depreciated in relation to total proven reserves. Costs which can be ascribed to developed reserves are depreciated in relation to total developed reserves.

The cost price for other property, plant and equipment is depreciated on a straight line basis over the economic life of the asset. The depreciation periods used are as follows:

- plant and equipment 6-10 years
- fixtures and other equipment 3-5 years

The depreciation period and method is reviewed annually to ensure that the method and period employed correspond with the asset's actual economic situation. The same also applies to the asset's scrap value.

Each year tangible assets are assessed for impairment. Emphasis is placed on factors which are relevant to the individual asset. These include external factors, such as market prices for hydrocarbons and technological developments, as well as internal factors, such as the Group's intentions for continued use, cost of use, and wear and tear. If the asset is deemed to be impaired, an assessment is made of its residual value. If the book value of an asset exceeds its residual value the impairment is recognized in the accounts.

Write-downs which have been recognized in previous accounting periods are reversed when it becomes apparent that the circumstances prompting the write-down no longer exist or the asset's estimated loss in value is less than it actually was. The reversal is recorded either in the profit and loss statement or as an increase in other reserves. However, a reversal will not take place if to do so would lead to the book value of the asset exceeding that which it would have been if it had been depreciated in the normal way.

Leasing

Financial leasing agreements

Financial leasing agreements are recognized initially as assets and liabilities corresponding to the cost price of the asset. Direct costs associated with the leasing contract are included in the asset's cost price. Monthly leasing costs are divided into an interest element and a debt repayment element.

The asset which is the subject of a financial leasing agreement is treated as an ordinary tangible asset. The economic life and depreciation period for the Group is determined on the same basis as property, plant and equipment owned directly by the Group. The depreciation period will not exceed the leasing period if there is any uncertainty as to whether the Group will acquire title to the asset at the end of the leasing period.

Operational leasing agreements

Leasing agreements in which the bulk of the risk remains with the lessor are classified as operational leases. Leasing costs are classified as operating costs and are charged to expenses for the duration of the leasing period.

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Inventory

Inventory, including work in progress, is recognized at the lower of cost price and net sales price after provisions for obsolescence. Net sales price is the market price from normal operations, less completion, marketing and distribution costs. Costs are determined using the FIFO method. Processed inventory includes variable costs and fixed costs which can be allocated to goods based on normal capacity. Obsolete inventory is written down in full. Included in the inventory are demonstration vehicles intended for sale. The vehicles are used operationally by the company and in the sale and marketing of products offered by the company.

It is expected that these vehicles will be sold within a period of one year. The vehicles are financed through established leasing frameworks with finance companies, with monthly repayments over a term of five years, and with the right to terminate the leasing contract when a demonstration vehicle is sold. The vehicles' financing is classified as debt to credit institutions.

Accounts receivable and other short-term receivables

Accounts receivable and other short-term receivables are recognized initially at fair value. In connection with the sale of goods and services, this will generally coincide with the original invoiced amount. Receivables are subsequently valued at amortised cost, determined using the effective interest rate method, less bad debt provisions. Bad debt provisions are recognised when there are objective indications that the Group will not receive settlement in accordance with the original terms.

Over-/underlift of hydrocarbons

Overlift of hydrocarbons is presented as a current liability, while underlift of hydrocarbons is presented as a short-term receivable. The value of over-/underlift is set at the estimated sales value, less estimated sales costs. Over-/underlift is presented gross.

Cash and cash equivalents

Cash includes cash on hand, bank deposits, short-term, easily convertible investments with a term of less than three months, and bank overdraft. Bank overdraft is recorded in the balance sheet under current liabilities.

Equity

Ordinary shares are classified as equity. Costs which can be ascribed specifically to the issue of new shares or options are charged, less tax, directly to paid-in capital.

Foreign exchange translation fund

The foreign exchange translation fund covers foreign exchange rate adjustments which arise in connection with the translation of business accounts in other functional currencies than the Noreco Group's presentation currency.

Hedging transaction fund

The hedging transaction fund covers the change in value after tax of hedging transactions which meet the criteria for the hedging of future cash flows, and where the hedged transaction has not yet been realized.

Dividend

Proposed, but not yet approved dividend is presented as a separate item under equity. Dividend is not recognized as a liability until such time as a resolution to pay dividend has been passed by the Annual General Meeting.

Share-based payments

Group management and employees are granted options to purchase shares in a subsidiary. The fair value is charged to expenses as the options accrue and the amount recorded as

Norwegian Energy Company ASA
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other paid-in capital in the subsidiary accounts. When the options are exercised the payments from management and employees are recognized as an increase in the subsidiary's share capital and share premium fund.

Pensions

Defined-benefits plan

Some of the Group's employees have pensions which are classified as defined-benefits plans. Pension assets are assessed annually by an actuary. Pension liabilities and pension costs are determined using a linear accrual formula. A linear accrual formula allocates the accrual of future pension benefits in a straight line over the accrual period, and considers the employees' accrued pension rights during that period as the pension cost for the year. The introduction of a new defined-benefit plan or an improvement of the current defined-benefit plan results in a change in pension liabilities. This is charged to expenses on a straight line basis up until the effect of the change has been accrued. The introduction of new schemes or changes in existing schemes with retroactive effect, such that the employee instantly accrues a paid-up policy (or a change in an existing paid-up policy), are recorded in the profit and loss statement immediately. Gains or losses ascribed to the limitation or termination of pension plans are recognized when they occur. Actuarial gains or losses are amortized over the average expected length of service, to the extent that they exceed 10 per cent of the larger of pension liabilities or pension assets (corridor). In connection with the implementation of IFRS with effect from 1 January 2004, previous years' estimate deviations were zeroed out.

Pension liabilities are calculated on the basis of the net present value of future cash flows. The discount rate corresponds to the interest rate on 20-year government bonds, plus the difference between the interest rate on government bonds and A-rated bonds for Norwegian companies, and 0.5 percentage points to take into account the length of term. The company's right to repayment of some or all of previous costs associated with the termination of a defined-benefit plan is recognized when, and only when, repayment is certain. A separate asset is then recorded at fair value.

Defined-contribution plan

In addition to the defined-benefit plan described above, the Group offers a defined-contribution pension scheme. Contributions to this pension plan amount to an agreed percentage of the employee's salary. The company's contribution is recognized in the year for which the contribution is made. The company has no liability beyond the annual pension contributions.

Debt

Debt is recognized at fair value, less transaction costs, when the loan is paid out. In subsequent accounting periods debt is recorded at amortized cost, calculated on the basis of the effective interest rate. The difference between the amount of the loan received and the amount to be repaid is recorded as a financial expense over the estimated term of the loan. When a convertible loan is issued, the fair value of the debt is calculated using the market rate for non-convertible loans with a similar length of term and level of security. The sum is classified as a liability and is recorded at amortized cost until the loan expires, either through its conversion to shares or upon maturity. The remaining consideration is included under equity, less the tax effect, as payment for the issue of options. Debt is classified as a current liability unless an unconditional right exists to postpone repayment of the debt for more than 12 months from the balance sheet day. The first year's instalment of long-term debt is classified as a current liability. Borrowing costs linked to the purchase and in-house manufacture of production assets, etc, are charged to expenses as they accrue.

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Provisions

A provision is recognized when, and only when, the company has a valid liability (legal or assumed) resulting from an event which has occurred, and it is probable (more probable than not) that a financial settlement will take place as a result of that liability, and the amount may be reliably measured. Capitalized provisions for removal liabilities reflect the estimated cost of closure and removal of wells and production facilities used for the production of hydrocarbons. Closure and removal liabilities are valued at the net present value of the expected future cost. The liability is calculated on the basis of today's removal requirements and are discounted back to present value.

The discount factor used reflects today's general level of interest rates. Liabilities are recognized when they arise and are adjusted continually in accordance with changes in requirements, price levels, etc. The counter-value of the provisions is recognized under tangible assets and is depreciated along with the relevant assets. The increase in the liability over time is recorded in the income statement as a financial expense.

Conditional liabilities and assets

Conditional liabilities are defined as:

- potential liabilities resulting from past events, where the existence of the liability depends on future events,
- liabilities which have not been recognized because it is not probable that they will result in a payment,
- liabilities which cannot be measured with sufficient reliability.

Specific mention is made in the Notes of material conditional liabilities, with the exception of conditional liabilities where the probability of the liability coming into existence is low. Conditional assets are not recorded in the annual accounts, but are specifically mentioned in the Notes if there is a certain probability that a benefit will accrue to the Group.

Events after the balance sheet day

New information about the company's position on the balance sheet day has been taken into account in the annual financial statements. Events after the balance sheet day which do not affect the company's position on the balance sheet day, but which will affect the company's position in the future are reported where material.

Financial risk management

Financial risk

The activities in which the Group is engaged make use of various types of financial instruments which entail various types of financial risk. The Group uses bank loans, bond loans and convertible bond loans to fund the company's operations, as well as to invest in new business activities. Financial instruments, such as bank deposits, receivables, payables and other current liabilities are also used in day-to-day operations. For hedging purposes, for major balance-sheet items or cash flows, certain financial derivatives, such as options, swaps and forward contracts, are also used. The most important financial risks incurred by the Group's activities are: market risk, credit risk, liquidity risk and interest rate risk.

Market risk

Foreign exchange risk: The Group has operations which generate significant cash flows in a variety of currencies. The Group also comprises businesses with various functional currencies (USD and NOK). The company's policy is to hedge important items in currencies other than its functional currencies against exchange rate fluctuations. This means that

Norwegian Energy Company ASA
Notes to the financial statement 2006

balance-sheet items, such as loans, and important cash flows, such as interest, cash calls, tax, etc, are hedged using forward currency contracts/swap agreements. Noreco's investments in businesses with a functional currency other than that used by Noreco ASA are not hedged against foreign exchange risk.

Price risk: The most significant risk to the company's cash inflow comes from the price of oil. To hedge this risk the Group enters into sales options specifying a price floor for the bulk of the company's oil production. The options grant the right, but not an obligation, to sell oil at a specified minimum price. If the market price of oil exceeds the strike price of the option, the option is not exercised and the Group sells at the market price. This type of hedging is treated as hedging in the accounts.

Credit risk

The bulk of the Group's credit risk is associated with recognized receivables and the fair value of financial derivatives. Credit risk associated with the production and sale of oil, gas and NGL is deemed limited, since sales are made to major oil companies with significant financial resources. This is also reflected in the high proportion of outstanding receivables as of 31 December. The Group's trading partners in derivatives are major banks, whose credit risk is considered low.

Liquidity risk

Prudent management of liquidity risk requires the maintenance of an adequate reserve of cash and easily convertible securities, as well as ready access to funding in the form of drawing rights. The Group's business activities require unrestricted liquidity for future investment. By means of a reserve-based drawing facility, the Group has ensured it has flexibility with respect to financing. This, together with substantial reserves of unrestricted liquidity and good cash flow from operating activities, means that the Group has secured the financing of its ongoing operations and future investments.

Interest rate risk

Loans at floating interest rates incur an interest rate risk with respect to the Group's future cash flows. Fixed interest exposes the Group to risks (discount/premium) associated with changes in the market rate. The majority of the Group debt financing carries a fixed interest rate. All bank deposits are at floating interest rates.

Uncertain estimates

Management makes use of estimates based on its professional judgment and assumptions about future developments when it prepares the annual financial statements. Uncertainty is attached to all estimates, since changes in market conditions may lead to changes in estimates. Estimate changes may lead to changes in the book value of the company's assets, liabilities, equity and profits.

The most important accounting estimates employed by the company are associated with the following items:

- the allocation of fair value to assets and liabilities in the event of acquisitions.
- the valuation of goodwill, intangible assets, property, plant and equipment, and future removal liabilities.
- depreciation of property, plant and equipment (production equipment).

Use of the acquisition method when recognizing business acquisitions requires that the acquisition cost is allocated to identifiable assets and liabilities in accordance with their fair value. When calculating the fair value of such assets and liabilities, a number of estimates are used to which a great degree of uncertainty is attached. For production facilities, the fair value is calculated by discounting estimated future cash flows from the fields. These

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estimates are based on uncertain assumptions relating to production profiles, reservoir estimates, hydrocarbon prices, production costs, future investment requirements, future closure and removal costs, and discount factors. Changes in one or more of these assumptions will have an impact on the fair value allocated. The fair value of the exploration and assessment portfolio is estimated using an estimate for risked reserves multiplied by the price per unit. A substantial risk is associated both with the reserve estimates and the price of economically viable future finds. Considerably less uncertainty is associated with the valuation of other assets and liabilities defined as business acquisitions.

In connection with business acquisitions, assets and liabilities will be revalued without the taxable value of the corresponding items being changed. This change affects capitalized deferred tax, which in turn leads to a change in goodwill. For the Noreco Group, goodwill derived from business acquisitions can be ascribed in its entirety to this effect. Since allocation of value to assets and liabilities is associated with a high level of uncertainty, cf. the previous paragraph, considerable uncertainty will also be associated with the allocation of goodwill in connection with acquisitions.

The valuation of production assets and intangible assets following an acquisition makes use of the same methods as described above. This means that uncertainty will be associated with the measurement of residual value with respect to book value at the end of each accounting period.

The value of the Group's capitalized goodwill and intangible assets with an infinite economic life are subject to annual impairment testing. Changes in hydrocarbon prices have a major impact on the Noreco Group's activities. A drop in the price of oil will have a significant effect on the Group's cash flows. Expectations regarding future oil prices are also an important factor in determining whether a find is economically viable and should be developed.

Furthermore, the price of oil also affects exploration activity. Production of oil and gas is subject to statutory requirements relating to the closure and removal of production equipment once production has ceased. Provisions to cover these future closure and removal costs must be made in the accounts at the same time as the statutory requirement comes into force.

The costs themselves will often accrue far into the future, and a great deal of uncertainty relates to the scale and complexity of the closure and removal operations involved. Estimated future costs are based on known removal technology, expected future price levels, and the expected future closure and removal date, discounted to net present value using a discount factor. Changes in one or more of these factors could lead to major changes in the size of the Group's closure and removal liabilities.

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Notes to the financial statements 2006

All figures in NOK

Note 2 Payroll costs, number of employees, benefits to employees, related parties etc.

Payroll costs	2006	2005
Salaries	24 944 043	2 879 620
Social security tax	2 993 297	122 874
Pensions (note 9)	1 982 962	-
Other benefits	1 391 741	182 033
Total	31 312 043	3 184 527

Average number of employees	14	1
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Below please find details of remuneration and benefits for the management for 2006. The total salary amount comprises all considerations/benefits that are regarded as taxable income salary, including base salary, holiday pay, bonuses, the value of benefits etc.

The below table sets out the remuneration and benefits to the management for the year 2006:

Name	Position	Share holdings	Salary	Bonus	Pension premiums	Other remun.	Total
Scott Kerr 1)	Managing Director	855	2 106 507	1 440 444	127 981	1 164 655	4 839 587
Reinert Seland	Exploration Manager	250	1 372 489	70 722	133 508	529 933	2 106 652
Thor Arne Olsen	Business Development Manager	222	1 758 897	31 529	130 117	617 717	2 538 260
Rune Martinsen	Engineering/ HSE Manager	206	1 449 185	51 594	111 240	454 821	2 066 840
Høvring 2)	CFO	264	1 095 477		112 140	334 930	1 542 547
Birte N. Borrevik 3)	Operations Manager	116	352 379		33 192	100 575	486 146

The Company has no outstanding loans or guarantees to any member of the management providing for benefits upon termination of employment.

1) Reflects salary and compensation for 1 ½ years from July 2005 through December 2006

2) Reflects salary and compensation for 10 months in 2006.

3) Reflects salary and compensation for 3 months in 2006.

Norwegian Energy Company ASA

Notes to the financial statements 2006

The below table sets out the remuneration and share holdings for the board of directors for the year 2006:

Name	Position	Share holdings	Salary	Bonus	Pension premiums	Other remun.	Total
Lars Takla	Chairman	804	1 030 000	-	-	-	1 030 000
John Hogan	Board Member	24	492 873	-	-	-	492 873
Roger O'Neal	Board Member	-	-	-	-	-	-
Tollak Melberg	Board Member	2 204	-	-	-	-	-
Gunnar Halvorsen	Board Member	-	-	-	-	-	-

The remuneration of the directors of the Board shall be determined on an annual basis by the Company's shareholders in its annual general meeting in accordance with section 3 the Company's Corporate Governance Policy. The directors may also be reimbursed for, inter alia, travelling, hotel and other expenses incurred by them in attending meetings of the directors or in connection with the business of the Company.

The company has a bonus scheme including all employees. This bonus scheme is dependent on achievement of certain goals.

Statutory Auditor

Fees for audit services and related services expensed in 2006 are:

	2006	2005
Audit	103 095	13 120
Consultancy services	198 885	42 920

Note 3 Other operating expenses

	2006	2005
Hired-in consultants	20 496 477	11 518 293
Data, IT expenses	5 357 038	205 745
Other office expenses	3 640 337	2 126 763
Total	29 493 852	13 850 801

Note 4 Exploration expenses

	2006	2005
G&G, G&A, seismic and field studies	20 318 668	-
Purchase of data and studies	18 791 299	7 809 495
Exploration costs in the period from effective date to completions date	(13 375 000)	-
Total	25 734 967	7 809 495

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Notes to the financial statements 2006

Note 5 Intangible assets and tangible fixed assets

	Exploration licenses and capitalized exploration expenses	Buildings, other real estate	Plant, machinery and other equipment	Totals
Acquisition cost 01.01	-	216 000	1 306 157	1 522 157
Additions	8 882 000	21 414	1 012 112	9 915 526
Acquisition cost 31.12.	8 882 000	237 414	2 318 269	11 437 683
Accumulated depreciation as per 01.01		-	58 422	58 422
Net depreciation current year		59 354	634 395	693 749
Accumulated depreciation and write-offs as per 31.12	-	59 354	692 817	752 171
Book value as per 31.12	8 882 000	178 060	1 625 452	10 685 512
Depreciation for the year	-	59 354	634 395	693 749
Economic useful life		5 years	3/5 years	
Depreciation method		Linear	Linear	

Note 6 Other receivables

	2006	2005
Receivables through licence shares	1 591 627	-
Recharged cost	1 589 767	-
Prepaid expenses	762 014	672 318
VAT receivable	511 279	1 231 042
Other	74 771	7 840
Total	4 529 458	1 911 200

Note 7 Share capital and Shareholder information

The share capital in the company as of 31.12.06 comprise the following shares:

	Number	Face value	Share capital
Ordinary shares	700	1 000	700 000
A-shares	24 239	1 000	24 239 000
B-shares	6 483	1 000	6 483 000
Sum	31 422		31 422 000

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Notes to the financial statements 2006

Ownership structure

The company's share capital amounted to NOK 31.422.000, comprising 31.422 shares at NOK 1.000, divided in three classes of shares (Common shares, class A and class B). Common shares comprise 700 shares each at NOK 1.000, class A comprise 24.239 shares, each at NOK 1.000 and class B comprise 6.483 shares each at NOK 1.000.

The share owners as per 31.12.06 were:

	Common shares	A - shares	B - shares	Total	Share
Takla Energy AS (Chairman of the board)	140		664	804	2,6 %
Kerr Energy AS (Managing director)	140		715	855	2,7 %
TAO Invest AS	105		117	222	0,7 %
Rumar Holding AS	105		101	206	0,7 %
Seland Invest AS	105		145	250	0,8 %
Høvring Invest AS	105		159	264	0,8 %
HitecVision Private Equity III AS		7 345		7 345	23,4 %
3i Group PLC		3 930		3 930	12,5 %
3i UK Private Equity		3 214		3 214	10,2 %
3i Pan European Growth Capital		201		201	0,6 %
Lyse Energi AS		7 345		7 345	23,4 %
Norwegian Energy Company Founders DA		2 204		2 204	7,0 %
Melberg Holding II AS			963	963	3,1 %
Melberg Investment AS			875	875	2,8 %
IKM Gruppen AS			875	875	2,8 %
Geo Invest AS			875	875	2,8 %
Other owners	-	-	994	994	3,2 %
Total number of shares	700	24 239	6 483	31 422	100 %

For further details regarding share rights, reference is made to the subscription and shareholders agreement.

Note 8 Equity

	Share capital	Share premium reserve	Not registered capital increase	Other Equity	Total
Total equity as per 01.01.06	2 135 000	-	51 904 861	(4 099 900)	49 939 961
<u>Changes in the year:</u>					
Paid-in equity (not registered)	20 341 000	31 563 861	(51 904 861)	-	-
Share issue	8 946 000	16 696 801		-	25 642 801
Profit/loss for the year				(19 859 078)	(19 859 078)
Total equity as per 31.12.06	31 422 000	48 260 662	-	(23 958 978)	55 723 684

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Notes to the financial statements 2006

Note 9 Pension costs, funds and obligations

The Company's employees are covered by a defined benefit pension plan. The main benefit is a pension of 66 per cent of the final salary and a 30-year vesting period (The plan also includes survivor/dependents, disability and child pensions). The pension payment is including a pension from National Insurance Scheme. As of 31 December 2006, the plan had 18 active members. The plan is organized through the insurance company Vital.

For accounting purposes it is assumed that the pension benefits are accrued on a straight line basis. Unrealized gains and losses resulting from changes in actuarial assumptions that exceed a specified corridor are distributed over the estimated remaining average vesting period. The corridor is defined to be 10 per cent of the most significant of the gross pension liability and the gross pension asset. The pension obligation is calculated by a independent actuarial late 2006 of the accounting year as an estimate of the obligation as per 31 December. The pension scheme was established in 2006.

Net pension cost	2006	2005
Net present value of benefits earned during the year	1 740 730	-
Interest cost on the pension obligation	11 284	-
Return on pension funds	-40 250	-
Overhead cost	26 152	-
Expensed estimate deviation loss / (gain)	-	-
Net pension cost before payroll tax	1 737 916	-
Social security tax	245 046	-
Net pension cost	1 982 962	-

Net pension obligations	2006	2005
Pension obligation (opening balance)	-	-
Incurred pension obligations (ex payroll tax)	1 737 916	-
Pension funds (market value)	-1 516 900	-
Net pension obligations (+)/-funds (-) before payroll tax	221 016	-
Estimate deviation not recognized	-	-
Payroll tax	31 163	-
Net pension obligations	252 179	-

Economic assumptions	2006	2005
Discount rate	4,35 %	-
Expected raise in salaries	4,50 %	-
Expected raise in pensions	4,25 %	-
Expected raise in G-regulations (amount)	1,60 %	-
Expected return on pension plan assets	5,40 %	-

Actuarial assumptions	2006	2005
Applied mortality chart	K63	-
Applied disability rates	IR02	-

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Notes to the financial statements 2006

Note 10 Income taxes

Calculation of deferred tax asset/liability		2006	2005
Fixed assets	78 %	-134 553	-225 600
Pension obligation	78 %	252 179	
Loss carry forwary as from 2005	28 %	5 387 201	1 779 000
Loss carry forward as from 2005	50 %	5 465 527	1 779 000
Loss carry forward 2006	28 %	1 609 726	
Loss carry forward 2006	50 %	725 821	
Basis for deferred tax calculation	28 %	7 114 553	1 553 400
Basis for deferred tax calculation	50 %	6 308 974	1 553 400
Deferred tax asset		5 146 564	1 211 652
Income tax calculation		2006	2005
Income (loss) before taxes		-88 064 339	-24 753 000
Deferred expenses related to purchased licence		-13 375 000	
Permanent differences		215 583	53 500
Tax-deductible costs related to share issue - charged directly to equity			-1 779 000
Adjustment in the 2005 temporary differences		-42 281	
Change in temporary differences		343 226	-225 600
Taxable income before loss carryforward		-100 922 811	-26 704 100
Loss carryforward		1 609 726	
Other expenses allocated onshore			
Of this, costs excluded from basis for refund			1 779 000
Basis of calculation company tax receivable	78%	-99 313 085	-24 925 100
Total income tax receivable (ex interest)		77 464 207	19 441 578
Company tax 28%		-28 258 387	-7 477 148
Special tax 50%		-49 656 542	-13 352 050
Income taxes recognized in the profit and loss statement		2006	2005
Tax related to changes in temporary differences		-267 717	175 968
Change related to previous fiscal year		-6 071	
Tax related to estimated loss carryforward this fiscal year		-813 634	-1 387 620
Interest income related to loss carryforward previous fiscal year		-87 233	
Taxes charged directly to balance sheet		10 433 600	1 387 620
Tax expense		-68 205 261	-19 265 610
Reconciliation of effective tax rate:			
Income (loss) before taxes		-88 064 339	-24 753 000
Expected tax expense 78%		-68 689 085	-19 307 340
Effect from permanent differences		168 155	41 730
Effect from taxation 28%		441 953	
Effect from permanent differences earlier year		-32 980	
Other changes earlier year		-6 071	
Interest income on loss carryforward from previous fiscal year		-87 233	
Income taxes		-68 205 261	-19 265 610
Income taxes in the financial statements		-68 205 261	-19 265 610
Effective tax rate		77 %	78 %

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Notes to the financial statements 2006

Note 11 Licenses and related commitments

Capitalized license commitments comprise net compensation (after-tax) as defined in note 1, reduced with the part of the "Carry" commitment already paid (after adjustment for tax effect).

<u>License</u>	<u>Asset</u>
PL 378	20,0 %
PL 382	20,0 %
PL 385	20,0 %
PL 271&PL302	30,0 %
PL 391	20,0 %
PL 347	17,5 %
PL 348	17,5 %
PL 148	20,0 %
PL 006c	25,0 %
PL 398S (APA 2006) awarded 2007	30,0 %
PL 400 (APA 2006) awarded 2007	30,0 %
PL 411 (APA 2006) awarded 2007	100,0 %
PL 412 (APA 2006) awarded 2007	40,0 %
PL 414 (APA 2006) awarded 2007	20,0 %
PL 417 (APA 2006) awarded 2007	20,0 %
PL 435 (APA 2006) awarded 2007	20,0 %

Related to the award of new licenses for exploration and production of oil and gas, the participants are required to drill a certain number of exploration wells. By year-end, Noreco have approved participation in 4 such wells on the Norwegian Continental Shelf. In addition, Noreco have approved purchase and reprocessing of seismic data on 2 licenses. Norecos share of estimated costs relating to the drilling of these wells, including purchase and reprocessing seismic data, is about MNOK 310. Wells that Noreco may be required to participate in the drilling of, depends on future results on certain licenses, and are not included in this figure.

Of the licenses that Noreco was awarded in the APA 2006, the licensees have committed to specific work programs. These programs include purchase and reprocessing of seismic data and participation in wells. Noreco's share of such estimated obligations amounts to MNOK 310.

When acquiring a license a "Carry" agreement is often applied. In a "Carry agreement, the acquirer agrees to pay sellers share of exploration costs and/or development expenditures limited upwards to an agreed pre-tax amount. These agreements are an alternative to cash payment. As per year 2006 the Company had entered into 2 such agreements.

Note 12 Other current liabilities

Other current liability comprise accrued expenses.

Note 13 Financing of Exploration expenses

The company have financed part of their exploration expenses through bank loan. Of the total exploration cost in 2006, 35 MNOK is financed through bank loan. The loan will be repaid as the tax receivable is paid out, probably late December 2007. There are covenants linked to the exploration financing.

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Notes to the financial statements 2006

Note 14 Bank deposits

Bank deposits, cash etc. include restricted funds of employees tax deduction by NOK 1.296.872

Note 15 Earnings per share

Average weighted no. Of shares outstanding as at 31 December	2 006	2 005
Shares issued as at 1. January	22 476	-
Effect of shares issued January 2005		1 085
Effect of shares issued April 2005		700
Effect of shares issued June 2005		350
Effect of shares issued December 2005		20 341
Effect of shares issued February 2006	959	
Effect of shares issued May 2006	7 910	
Effect of shares issued September 2006	77	
Total number of shares as at 31 Dec	31 422	22 476
Average weighted no. of shares as at 31 Dec	28 654	3 509
Net profit	(19 859)	(5 488)
Diluted profit	(19 859)	(5 488)
Earnings per share	(693)	(1 564)
Diluted earnings per share	(693)	(1 564)

When calculating diluted earnings per share, all potential ordinary shares which have been issued in the period and which would have a diluting effect (ie would reduce the earnings per share of ordinary shares) have been taken into account. In the diluted average weighed number of shares outstanding, all shares which can be received by exercising share options which ar "in the money" have been included. The company had no options as per 31.12.2006 and such effect has consequently not been calculated.

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Note 16 Financial and operational lease

(NOK 1000)

As per 31.12.2006 the Company had no leasing agreements defined to be financial lease agreements

Operational leasing agreements:

Annual leasing costs associated with leasing agreements treated as operational leasing agreements (NOK 1 000)

	2 006	2 005
Office space	661	244
Data	109	-
Other	34	7

Total minimum leasing charge relating to non-cancellable leasing agreements (NOK 1 000)

	Annual leasing charge
2007	1 975
2008	2 230
2009	2 160
2010	1 660
>2011	10 168
Total	18 193

Note 17 Subsequent event

In the beginning of 2006 Noreco was qualified as a licensee on the Norwegian Continental Shelf. In 4th quarter 2006 Noreco also was qualified as operator on the Norwegian Continental Shelf. Noreco is working closely with operators on several fields and in connection with the APA 2006 awarded early 2007 Noreco became operator of 2 fields (PL412 and PL411).

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Notes to the financial statements 2006

Note 18 Explanations of the transition from N-GAAP to IFRS

(NOK 000's)

2006 is the first year NORECO present the financial statements in accordance with IFRS. To have comparable accounts the 2005 numbers have been restated in accordance with IFRS.

In preparing its opening IFRS balance sheet and financial statements for the year ended 31 December 2006, Noreco and Noreco consolidated have adjusted amounts reported previously in financial statements prepared in accordance with N-GAAP. An explanation of how the transition from N-GAAP to IFRS has affected the Group's financial position, financial performance and cash flows is set out in this note.

Reconciliation of IFRS adjustments Noreco

NORECO ASA All figures in (NOK)	2006 NGAAP	IFRS adjustments 1)	2006 IFRS
Exploration costs expensed	23 540	2 195	25 735
Other operating expenses	60 806		60 806
Operating results before depreciation and amortisation (EBITDA)	(84 346)	(2 195)	(86 541)
Depreciation and amortisation	694		694
Operating result (EBIT)	(85 040)	(2 195)	(87 235)
Financial items, net	(830)		(830)
Profit before tax (EBT)	(85 869)	(2 195)	(88 064)
Tax	66 494	1 711	68 205
Net results	(19 375)	(484)	(19 859)

CONSOLIDATED BALANCE SHEET All figures in (NOK)	01.01.06			31.12.06		
	NGAAP	IFRS adjustments 1)	IFRS	NGAAP	IFRS adjustments 1)	IFRS
Non-Current assets						
Deferred tax assets	1 212		1 212	5 147		5 147
License interests, exploration assets			-	90 472	(81 590)	8 882
Other machinery and equipment	1 464		1 464	1 804		1 804
Total non-current assets	2 675	-	2 675	97 422	(81 590)	15 832
Current assets						
Account receivables and other current receivables	1 911		1 911	4 842		4 842
Tax receivables	19 442		19 442	77 464		77 464
Bank deposits, cash in hand, etc.	41 616		41 616	11 970		11 970
Total current assets	62 969	-	62 969	94 276	-	94 276
Total assets	65 644	-	65 644	191 698	(81 590)	110 108
Equity						
Share capital	2 135		2 135	31 422		31 422
Other equity	47 805		47 805	24 786	(484)	24 302
Total equity	49 940	-	49 940	56 208	(484)	55 724
Liabilities						
Provisions for other liabilities and charges			-	81 358	(81 106)	252
Other short-term interest bearing debt			-	35 000		35 000
Other current liabilities	15 704		15 704	19 132		19 132
Total liabilities	15 704	-	15 704	135 490	(81 106)	54 384
Total equity and liabilities	65 644	-	65 644	191 698	(81 590)	110 108

Explanation of material adjustments to the cash flow statement for 2006 and 2005

1) Under NGAAP the Company accounted for "farm in" agreements at closing of such agreements by recognising an asset and a corresponding licence obligation (net of tax, 78%). Actual carried costs in succeeding accounting periods were accounted for as redu

There are no material differences between the cash flow statement presented under IFRS and the cash flow

To the Board of Directors of Norwegian Energy Company ASA

STATEMENT REGARDING ANNUAL FINANCIAL STATEMENTS FOR 2006 PREPARED BASED ON INTERNATIONAL FINANCIAL REPORTING STANDARDS

We have audited the annual financial statements of Norwegian Energy Company ASA as of 31 December 2006, showing a loss of NOK 19,859,078. The annual financial statements comprise the balance sheet, the statements of income and cash flows, the statement of changes in equity and the accompanying notes. The rules of the International Financial Reporting Standards as adopted by the EU have been applied to prepare the Company's financial statements. These financial statements are the responsibility of the Company's Board of Directors and Managing Director. Our responsibility is to express an opinion on these financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We issued our unqualified Auditor's Report on the Company's statutory financial statements as of 31 December 2006 that are based on the Norwegian Accounting Act and generally accepted accounting principles in Norway on 26 March 2007. These financial statements provide the basis for the financial statements prepared based on International Financial Reporting Standards as adopted by the EU.

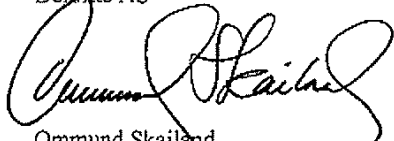
We have conducted our audit in accordance with the Norwegian Act on Auditing and Auditors and generally accepted auditing practice in Norway, including standards on auditing adopted by Den norske Revisorforening. We issue our statement in accordance with RS 800 "Auditor's statement regarding special purpose audits". The auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and generally accepted auditing practice, an audit also comprises a review of the management of the Company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

- the Company's financial statements are prepared in accordance with law and regulations and give a true and fair view of the financial position of the Company as of December 31, 2006, and the results of its operations and its cash flows and the changes in equity for the year then ended, in accordance with International Financial Reporting Standards as adopted by the EU.

Stavanger, 4 October 2007

Deloitte AS



Ommund Skailand
State Authorised Public Accountant (Norway)